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GREAT AMERICAN ISSUES

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POLITICAL SOCIAL ECONOMIC

(A CONSTRUCTIVE STUDY)

BY

JOHN HAYS HAMMOND

AND

JEREMIAH W. JENKS

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CONTENTS

INTRODUCTION

CHAPTER PAGE

I.—To-day and To-morrow 1

Preparation as essential for peace as for war—International friendship—Political and industrial unrest intensified by the war—National readjustments necessary to meet new conditions—Scope of the problems to be solved—Inadequacy of pre-war standards of efficiency—American advantages and disadvantages contrasted—Fundamental difference between conditions in America and Europe—The "vicious circle" of cheap labor, low costs and over-production—Importance of a more equitable distribution of wealth—Substance rather than form the test of popular Government—America's opportunity in promoting world Democracy—Meaning of the term "Democracy"—The relation of individual to national welfare—Problems involved in promoting individual welfare—Fundamental importance of education.

I. PROBLEMS OF GOVERNMENT

II.—What the Government Should Do 15

Democracy versus Autocracy—Essentials to the expression of the Democratic Ideal—The proper function of Government—The criterion of Good Government—The limitations of Government—Popular fallacies as to the scope and power of Government—Governmental action restrictive rather than constructive—Functions assigned to the Government by Common Consent—Government ownership versus private ownership of public utilities—The evils of Government Ownership—Its Political Consequences—Freight rates on Government owned and on privately owned railways—Postal service a logical Government monopoly; not always efficient—The proper basis for determining the question of Government ownership—Political ideals versus methods of administration—Discontent with the Government a normal characteristic of Democracy—What the Government can do.

CHAPTER PAGE

III.—Politics and the Citizen 28

The relation of politics to Government—The politician versus the statesman—The basis of good Government —Present-day obstacles to good Government—Predominance of lawyers in politics—Conditions which fitted the lawyer for political leadership—Political aptitude not synonymous with aptitude for Government—Defects of legal training as a preparation for constructive leadership—Inadequate representation of business men in public life—Importance of education in civic duty—Occupations which should contribute constructive thought to our political life—Sacrifices involved by the participation of business men in politics —Importance of a broader conception of our political responsibilities.

IV.—Ideals of American Democracy 40

Confusion as to the meaning of the term democracy—Influence of political machinery on representative Government—The substitution of delegated Government for representative Government—The decrease of faith in representative Government—Measures adopted by moderates to restore representative Government—The methods of the extremists—The evils of the Initiative, the Referendum, and the Recall—The agencies which have led to political reforms—The two-party system—The problem of securing competence in politics—Factors in the weakness of our representative system—The defects of the Primary—Methods for improving the Primary.

V.—The Struggle for Good Government 54

Political skill versus administrative ability—The relation of politics to Government—Politics a legitimate function of legislative practise—Sound principles of more importance than political advancement—Reasons for filling executive positions through election—Eliminating politics from administration—Fallacy of applying the elective principle to technical positions—Need for permanent undersecretaries in the executive departments—British system of permanent undersecretaries — Selection of undersecretaries — Executive ability versus administrative skill—Evil effects of decentralized authority—Wisdom of allowing the chief executive to appoint his subordinates—Tendency toward higher standard of public morality—Fundamental defects of the spoils system—Disadvantage of a multiplicity of executive appointments—Advantages of the Civil Service system—Practical defects of the Civil Service—*Report* of the joint congressional *Com-*

CHAPTER PAGE

mission on Re-classification of *Salaries*—The Civil Service retirement system—Tendency of private business toward Civil Service procedure—Business principles as a guide to better Government.

II. PROBLEMS OF LABOR

VI.—Labor, Capital, and the Community 75
International aspects of the relations between Labor and Capital—Advantages and disadvantages of our export trade—The proper ratio of export trade to our total trade—Advantages of domestic consumption of our raw materials—Factors in determining the mutual relations of Labor and Capital—Community interests involved in the adjustment of relations between Labor and Capital—Demands of Labor and Capital contrasted—Interests of Labor and Capital reciprocal—The relation of labor conditions to public interests—Industrial Autocracy versus Industrial Democracy—The evils of an Industrial Autocracy—Unwise extension of the principle of industrial freedom—Attitude of Labor and Capital toward the public—Relation of labor disputes to the American standard of living.

VII.—The Standard of Living 83
Scope of the term "Standard of Living"—Influence of American industrialism on the Standard of Living—Aspects of the improved Standard of Living—Education as a factor in advancing the Standard of Living—Activity versus frugality as the basis of American prosperity—Importance of thrift—Classes most affected by the increased cost of living—Relative changes in the incomes of salaried employees and wage-earners since the beginning of the war—Importance of maintaining and improving the Standard of Living—Relation of rising prices to social unrest—Effect of rising prices—A survey of wages—Difference between real and nominal wages—Professor Fisher's plan for stabilizing the purchasing power of the dollar—Desirability of stable relations between prices and wages—Fundamental importance of the individual in adjusting the Standard of Living—The plea for an adequate wage—Minimum wage legislation—Need for further trial of legislation providing an adequate wage in American industries.

VIII.—Labor Disputes 97
Significance of labor disputes—The strike as a weapon in industrial conflicts: Its purpose; results—Possi-

CHAPTER PAGE

bility of preventing strikes—Statistics of strikes in the United States—The economic loss from strikes—Strikes not wholly preventable—Compulsory arbitration as a remedy for strikes—The principal methods of settling labor disputes: Mediation, Investigation, Arbitration, Cooperation—Methods of arbitration contrasted—The weakness of existing systems of arbitration—Arbitration Courts as a means of settling labor disputes—Relation of industrial organization to collective bargaining—Collective bargaining as viewed by the British Industrial Council—Public sentiment as a factor in the settlement of labor disputes—Prevention of strikes and industrial disputes—Profit sharing not very successful—Labor cooperation in the management of industry—A suggested plan of labor participation in management—The great complexity of business.

IX.—UNEMPLOYMENT 115

Relation of unemployment to the Standard of Living—The practical problem of unemployment—Unemployment through sickness—Economic value of Public Health work—Importance of thrift in mitigating the effects of sickness—Growth of voluntary Health Insurance—Prevention of sickness through Health Insurance—Compulsory Health Insurance—Relation of seasonal occupations to unemployment—Free employment bureaus as a preventative of unemployment—The United States Employment Service—Relieving unemployment in periods of industrial depression: Through restriction of immigration; through expenditures for public works.

X. IMMIGRATION 128

Immigration a menace to the American Standard of Living—Immigration from 1820 to 1916—Census statistics of 1910—Deterioration in the quality of our immigrants since 1880—Immigration by countries 1904-1913—Low standards of recent immigrants—Immigration and the labor supply—Aspects of the competition between immigrants and native wage-earners—Changes in the ratio of high-wage to low-wage immigration—Foreign-born population of the United States in 1900 and in 1910—The evils of unrestricted immigration—Legislation restricting immigration—Defects of the literacy test—The traits of a desirable immigrant—Percentage of immigrants fully naturalized The tendency toward naturalization as a basis for regulating immigration—Advantages of inspection of foreign ports—Need for an Immigration Commission.

III. PROBLEMS OF BUSINESS

CHAPTER PAGE

XI.—The High Cost of Living 143

Factors in the high cost of living: High standards of living; larger incomes; the war; extravagance—Distinction between high cost of living and high prices—Taxes and the high cost of living—Chief cause of high prices is increase in money supply: Increase in world supply of gold; reorganization of American banking system; increase in supply of gold in the United States; change in nature of expenditures by Government and people; bonds and treasury certificates—Varying effects of increase in prices upon different classes—"Profiteers" and the high cost of living—Essentials to the restoration of normal economic conditions: The inflation of currency and credit; the Government and its obligations; the need of thrift; increase in business and production.

XII.—Competition and Big Business 160

Relative importance of our internal trade and foreign trade—Fundamental importance of our internal trade—Attitude of the Government toward Big Business—Typical misdeeds charged to Big Business—Relation of business malpractices to private and to public interests—Confusion of thought as to the value of competition—Methods of unfair or unrestricted competition—Relation of size to business efficiency—Natural monopolies—Consequences of unregulated monopoly—Aspects of the problem of Big Business—Advantages of large scale production—Importance of constructive legislation in the field of Big Business—Need for a Federal Business Commission—Limitations of the Federal Trade Commission—Federal incorporation of Big Business.

XIII.—The Tariff 174

Principles to be considered in adjusting the tariff—Economic experience versus political opinion as a guide to tariff revision—Tariff systems in use—Kinds of duties in use—The object of a protective tariff—The tariff and sectional interests—Classification of goods produced—Factors to be considered in levying a tariff—Secondary advantages of a protective tariff: Developing newly created industries; prevention of dumping; bargaining for world markets; establishing our economic independence—Relation of the tariff to industrial activity—Advantages of a protective tariff summarized—Distribution of the benefits of a protective tariff—Relative effect of a protective tariff on

CHAPTER PAGE

wages and the cost of living—Economic status of American and European wage-earners contrasted.

XIV.—Foreign Trade 195

Tendency to exaggerate the importance of our foreign trade—Essentials to our success in competing for foreign trade—Our ideal foreign policy—Our advantage in raw materials—The balance of trade, 1904-1914—Effect of the war on our trade balance—Fundamental importance of our home market—Need for new foreign markets for our surplus products—Effect of the war on international trade—Wisdom of a liberal policy toward the economic rehabilitation of Europe—Restrictions which should be placed on the use of American funds by Europe—Importance of increasing our oil resources—Proposed plans for helping Europe—Rationing credits under an international loan; purchase of European enterprises with American capital—Importance of the so-called "backward nations" as a market for American products—International investments as a factor in the development of foreign trade—Importance of good security for foreign loans—Proposed High Court of Equity for the settlement of international disputes—Importance of a broader attitude by the Government toward American investments in foreign countries—Advantage to backward countries of influx of foreign capital—Essentials to an intelligent foreign trade policy.

XV.—Problems of Foreign Exchange 210

Pre-war situation regarding balance of trade—Changes in trade balance brought about by the war—Depreciation of European currencies—Increases in public debts—The "pegging" arrangement to maintain exchange—The effect of the withdrawal of British, French and Italian support—Proposals for improvement of exchange situation—Conditions in Germany and Austria—Conditions with European neutrals—Canadian conditions—Latin-American conditions: Argentina, Brazil, Chili—Situation in the Orient: Japan, India, China—Far Eastern financial problem for the United States.

IV. REMEDIAL SUGGESTIONS: MISTAKEN; HELPFUL; SOUND

XVI.—Proposed Forms of Social and Political Organization. Socialism, Anarchism, Trade Unionism, Syndicalism and Sovietism 235

The doctrine of Socialism—Program of Conservative Socialists—Policies of Radical Socialists—Anarchy

CHAPTER PAGE

defined—The aims of theoretical Anarchists—Philosophic Anarchism in the United States—Characteristics of Trade Unionism—Aspects of Collective Bargaining—Violation of trade agreements—Weapons of Labor and Capital—Distinction between "Craft Unionism" and "Industrial Unionism"—Political Attitude of American Trade Unionists—Achievements of the American wage-earner—The "Guild Socialist" movement—The theory of Syndicalism—Program of the Syndicalists—The "One Big Union" movement—Sovietism in theory and practise.

XVII.—Education 248

Importance of practical aims in education—Changes in the ratio of producers to non-producers—Laxity in school discipline—Misconstruction of the principle of equal opportunity—Individual limitations in the use of knowledge—Ability to think versus the acquisition of facts—Conflict of ideals in the universities—Tendency to overestimate the value of a classical education—Comparative value of educational systems, education and native talent—Educational ideals versus the technique of teaching—The essentials to success—Americanization of children of alien parentage—The Federated Boys' Club movement—Deficiencies of our schools as character builders—Importance of manual training in the schools—Weakness of the universities in practical training—Character building the supreme need.

Index 267

INTRODUCTION

GREAT AMERICAN ISSUES

I

TO-DAY AND TO-MORROW

UNLESS we put our house in order—politically, socially, industrially—nothing is more certain than that we in America are going to suffer before long from evils scarcely less terrible than those with which war has made the world familiar. Despite ample warning, the United States was totally unprepared for war, and the sudden cessation of hostilities found it totally unprepared for peace. Despite also a modicum of useful achievement, such as certain orders of the Federal Reserve Board, the passage of railway legislation, and the reports of Government and private bodies on the wage situation, merely a promising beginning has been made toward a solution of our difficulties.

It is at once a blessing and a misfortune that, thanks to the cooperation of our allies, we were not compelled to suffer the tragic consequences due to follow our lack of foresight. During the great war France and England provided us with artillery, ammunition, airplanes and ships; and they sent over hundreds of their most experienced officers to instruct us in training an army for modern warfare.

The spirit of mutual helpfulness which brought such

notable success to our united efforts developed because of the overwhelming necessity of defeating Germany,—a need so urgent and so immediate that no other consideration could exist beside it. Race prejudice, trade rivalry, conflicting ambitions,—all gave way to the business of victory, and in face of the almost universal failure of such alliances throughout history, the great Entente fought a bitter war and resisted every effort of an ingenious and resourceful enemy to sow the seeds of dissension in its ranks. Not until the allied nations felt themselves secure against immediate peril from this common enemy have we seen signs of the revival of threatening jealousies.

The unpractical idealists,—and there are many of them,—are disposed to read into this remarkable example of harmonious action a significance at once false and dangerous. They ask us to believe that the international friendships produced by war will grow and ripen under the generous influences of peace, and declare that the price of the conflict, in blood, suffering, and destruction, has not been too high, since it is now proved that the nations of the world can in an emergency be brought together unselfishly to serve a common aim. If this can be done where the material surroundings are bloodshed and violence, how easy it should be, according to our theorists, to extend and perpetuate internationalism now that the goal of common action is the happiness of mankind.

The practical man, however, sees the probability of a very different sequel to the war. He recalls that in England, in France, in Italy, and even in the United States, the general condition of affairs immediately prior to the war was most threatening. Labor was discontented, capital was nervous, taxation was mounting at what we then thought to be an alarming rate. Government was

attempting, even in conservative England, to head off the danger of revolutionary socialism by enacting semi-socialist legislation. International commercial competition had reached a point where it was indistinguishable from political competition. Unemployment, not less in the United States than elsewhere, was worse than it had been for many years. The situation was indeed critical.

Then came the war! Came and passed! And now, after the turmoil of strife, the old-time struggle and rivalry are cropping up again. Furthermore, the problems which lie before us to-day are not those of the days "before the war," for, far from solving them, the war has immeasurably complicated them. Each one of these problems has been magnified out of all semblance to its former self, and to each have been added new and puzzling elements.

The broad task before us is, then, to adjust our national life to these new world conditions, and, because of the magnitude and importance of such an enterprise, we must set forth certain general considerations before examining in detail the various aspects of the undertaking. The three principal European belligerents, it should be noted, very early provided themselves with organizations devoted to handling after-the-war problems. Germany, in 1916, was the first to act, and she was followed within a year by France and England. It was not, however, until October, 1918, that the first sign of interest in such matters on the part of the American Congress came to light in the form of a proposal by Senator Weeks of Massachusetts that a commission be created for the study of our national requirements after the conclusion of peace.

Although the terms of peace have imposed heavy burdens upon Germany, her commercial agents are already

active in Russia, South America and elsewhere, attempting to gather up the old lines of influence that were temporarily broken. In our own country, although through various governmental reports and studies by such private organizations as the Foreign Trade Council and the United States Chamber of Commerce we are gathering valuable material, and although in the passage of financial and railway legislation a really good beginning has been made, we are still only on the threshold of our new business structure. Our attention may well be turned to some of these after-the-war problems, that we may learn something of what this new business structure must become in order successfully to cope with the changing situation.

During those first few months which followed the armistice the energies of the nation were bent upon the immediate task of bringing our soldiers home, demobilizing them, providing for the wounded, and replacing the sound and healthy in our social and industrial system. This work has been largely, although not yet entirely accomplished, and we now face matters of larger import which concern national and international affairs. The solution of these questions involves a broad knowledge of affairs, and a comprehensive view of world-wide movements and conditions. While they touch every element of our national life, they are to our misfortune inextricably mixed up with politics; in fact, they involve the consideration of every vital factor in the internal and external activities of our government, both on its political and its administrative side: the tariff, our immigration policy, our educational system, our domestic trade and industry, our foreign commerce, our merchant marine, the question of government ownership or control of big business, and the relations between labor and capital.

These matters simply cannot be taken up where they were left at the outbreak of war and made after a fashion to serve our present needs. They must be frankly and carefully examined in a spirit favorable to profound changes in practice, and possibly even to some modifications in principle, if the facts disclose the necessity. Our object in the following pages, therefore, must be to consider each separate problem deliberately, fairly, and thoroughly, remembering all the while that it is but a single wheel in a complicated machine, in which no single part can be perfect without proper correlation with the whole. We must strive to point the way to relative perfection for every part, but we must always keep in mind the necessities of the whole and of every other part in relation thereto.

We must start with the proposition that every shortcoming of which we were conscious before the war has now become much more urgent and much more difficult to deal with. And we must not forget that the European nations, because of the desperate straits in which they now find themselves, will be compelled to develop to the utmost every resource at their command if they are to avert national bankruptcy. This forces the problem of trade rivalry upon our consideration.

Our three great trade rivals—England, France, and even Germany with all her burdens,—in spite of their great handicaps of crushing debt and a depleted labor force, to which is added the incalculably disturbing factor of political unrest, have already begun, and in the future will continue to force the competition for foreign markets to a point immeasurably beyond anything we have heretofore been called upon to meet. Our rivals will not be content with merely getting back to their old basis of production, for if they do no more than that they will

be unable to meet even the interest on their national debts. It should, therefore, be brought home to every American that our ability merely to hold our own,—to retain, much less to advance, the high standard of living in this country,—cannot be left to depend upon a measure of national efficiency which sufficed under the old conditions to supply our incomparable home market and to leave us a comfortable surplus for international trade. This is not a time for complacency. Our commercial rivals will direct their best intelligence to improving the technique of every business and manufacturing operation, and they will begin this process not in the office and the factory, but in the school and the university. Every energy will be turned to furthering this single aim.

The home training, the educational system, the governmental institutions of these nations will be enlisted in this work, so that the natural abilities of their people and the natural resources of their territories may be made to yield the utmost harvest of effectiveness. That they have every right as well as every incentive to do this no sensible man can deny. The part of wisdom for us lies not in caviling at their efforts but in emulating them. We recognize, when face to face with this situation, that the American has certain advantages and certain disadvantages. Of these it may be well to take stock before we go further.

On the credit side of our account it may be set down that, compared in business matters with the average European, the American is, on the whole, more adaptable, quicker in initiative, less enslaved by custom; that we have at our disposal greater resources both in capital and in raw material; that we are closer to the great undeveloped resources of South America and China, and that much of our country is still unsettled.

On the debit side it must be admitted that we Ameri-

cans are wasteful and extravagant; that a certain restlessness absorbs too much of our energy; that our sense of discipline is weak; that we neither respect nor reward political leadership; that outside a few industries we have little highly skilled labor; that despite the activities of the Shipping Board we have not yet worked out any plan for an American merchant marine to enter into competition with other commercial nations for carrying the world's trade; that the administration of government, however admirable this system of government may be in theory, has, especially in these last few years of chaotic upheaval, become slipshod and incompetent; that our system of education, much as it has been improved of late years, is still inadequately responsive to the needs of the country; and that our immigration laws have allowed Europe to send us, together with millions of excellent citizens, altogether too large a proportion of its own undesirables.

Approaching the question of what we must do to utilize to the utmost our advantages and to overcome our surmountable disadvantages, our first objective is to reach a clear understanding of the fundamental facts which underlie the conditions with which we have to contend abroad. Foremost among them is the great difference between the standard of living in the United States and in Europe. We must maintain our standard of living in order thereby to maintain the high standard of our citizenship—this is a supreme political necessity.

The general standard of living in Europe is distinctly lower than that in the United States owing to various reasons, and this lower standard produces some striking results. The high standard in this country comes naturally from our vast natural resources with a relatively small population which possesses a relatively high indus-

trial intelligence. Our farmers almost invariably comment on the difficulty, not to say impossibility, of securing immigrant laborers who can handle horses or especially who can use farm machinery to any advantage as compared with our American-born workmen; and note our farms compared with Europe's small peasant holdings. The low standards of Europe and the accompanying low purchasing power of the consumers—mainly wage earners—result much sooner than with us in surplus production in many lines which must be exported to meet the imperative need for goods, largely raw materials, not produced in sufficient quantities at home. This early necessity for foreign markets brings about keen competition from other nations in those markets, which holds prices down and is a powerful factor in keeping down wages and standards of living.

Against these handicaps, the standards of living in Europe before the war had steadily risen; but even in Germany, with her highly intelligent vocational training and government favors to exporters which enabled her to enter many British markets, the improvement in standards did not equal that in the United States. The intensity of this drive for their foreign trade as compared with our great advantage in our unrivalled home market and superior resources and industrial skill have always kept Europe's need for cheap production cost so intense that it has always compelled relatively low wages, and has held their standards of living, though improving, still far below ours and not keeping pace with ours.

The situation in Europe has called for two methods of action: first, each country has been forced to find markets for its goods in countries of higher purchasing power than its own; and second, each country has had to develop markets in foreign countries of low purchasing power.

The former represents a qualitative expansion of business in the more costly products, the latter a quantitative expansion of business in the cheaper goods. These elements—cheap labor, low standard of living, surplus production, the search for markets,—coupled with the vaulting ambitions of a domineering autocracy, have engendered bitter commercial rivalry.

This leads to another important consideration. The chance of keeping the world at peace for any considerable period depends ultimately upon whether or not the nations are willing and able to improve the living conditions of their people. It is not too much to say that the surest guarantee of peace is general prosperity, and that the discontent of extreme poverty at times breeds a state of desperation in which any prospect of change, even through the agency of war, can be made to bear the aspect of hope. Where this desperation is firmly controlled by statesmen it sometimes leads to a foreign war,—where it is uncontrolled it leads to revolution. If Europe is still to practise the old industrialism, which provided luxury and ease for the few and toil and penury for the many, the new extension of popular government will soon be recognized by the masses as little more than a new name for an ancient evil; and we shall witness a violent disruption of society—a Bolshevist régime, somewhat modified by the better education of Western Europe.

It is unfortunate that there should have been so much exaggeration as to the importance of the part which the mere form of government plays in the life of the average man. Few men have, in fact, any great interest in this matter; what the majority are concerned with is not the form but the substance of their institutions, not how they function but what they give. When the first enthusiasm of new democracies has waned, the enfranchised millions

will be eagerly examining the tree of political freedom for the hoped-for fruit of social betterment. The real task before the world to-day is to see that the fruit is both sound and plentiful, that it is not a crop of Dead Sea apples.

We in the United States are as much concerned as the rest of the world in every project directed toward securing everywhere a more even distribution of the world's goods, narrowing the gulf which separates the rich from the poor, and increasing greatly the numbers of the measurably well-to-do. Our contribution to this work can be made of the greatest value to humanity, if we base it upon our example and not merely on our precepts or preachments. By carrying out among ourselves the reforms we would prescribe for others, our sincerity can be made plain and our experience made valuable.

At every step we must be guided by two broad principles: that Democracy is not the expression of the equality of all men, but of their equal right to develop, to exercise, and to profit by their individual qualities; and that no program of social justice can ever realize its object if it seeks to interpret equal opportunity in terms of an equal reward for unequal service.

It need not, therefore, surprise the reader that the problems to be discussed here are primarily national problems, and that world problems hold only the second place. America's place in the world will depend not upon what America claims, but upon what America is. We are told to-day that we should have a world outlook, but just as the affairs of a community can only prosper when each citizen follows assiduously and intelligently his own business, so the affairs of the community of nations can only prosper as each nation proves itself capable of managing intelligently its own affairs. One cannot dissociate the

welfare of a nation from that of its citizens. If we cannot help ourselves we cannot help others.

The happiness of the individual depends upon contentment, activity and intelligence. He cannot be content when he labors under a sense of injustice, when he feels that he is oppressed by privilege and is not accorded a fair opportunity. Hence the problems of government are given first place in our thesis. The primary function of government is to establish equality of opportunity, and if, through the indifference of its citizens, forms and procedure which restrict this opportunity are allowed to gain the upper hand, the government itself becomes in that degree a menace to the public welfare. Without expounding any exaggerated theory that government alone can make men happy and contented, it must be recognized that government possesses in a high degree the power to make them unhappy and discontented. It may, indeed, go far towards engendering a spirit of revolt. It is from this point of view that we shall endeavor to review some of the vital problems of government.

Again, the individual depends for his happiness upon his activity. He loses his spur to activity if industrial conditions fail to insure him the opportunity to exercise his gifts and to obtain a just reward for the effort which he makes. The second phase of the problems of the day, therefore, concerns the problems of labor. We shall see here how much depends upon the maintenance and continual development of the standard of living: we shall discuss the requirements of that standard, the struggles to advance it and the obstacles which beset its upward movement.

Moreover, the happiness of an individual depends not only upon his opportunity and his activity but upon the skill and wisdom with which he uses them. Nor is it

otherwise with nations. The most perfect political constitution, and the most laudable individual industry, will be ineffective unless guided into right paths. And, therefore, our discussion of to-day's problems includes a résumé of the problems of business.

Those who follow this discussion throughout will realize that the power behind all political, social and business enterprises is the individual man. They will see that hope for better democracy, better society, and better business, lies after all in a better breed of men. If we are building for the future we must train up a set of men capable of wrestling with its difficulties. In education lies a hope for the morrow, and since our problems include not only those of to-day but those of to-morrow, our discussion fitly terminates with a plea for an adequate education for the growing generation.

I

PROBLEMS OF GOVERNMENT

II

WHAT THE GOVERNMENT SHOULD DO

DEMOCRATIC government, roughly described, is an arrangement by the people for getting what they wish; autocratic government is one for giving them what some one else wishes them to have.

In the democratic form it is presupposed that the majority of the people will know what is best for them and for their country, and that they will be unselfish enough to vote for the things that are best for their country even when these run counter to their own selfish personal interests. Assumptions of this nature do not lack faith, hope or charity, but they flourish in too rarefied an atmosphere for the average man, who displaces them by the simple dogma that any counted majority of people is entitled to get what it wants, without considering the ultimate effect upon the country or the individual. It still remains true, however, that all that is necessary to make democracy a perfect system of government is for this ruling majority to be wise, well-informed, and unselfish.

Autocracy, on the other hand, is based on the idea of minority rule, and rests on the assumption that the educated and property-owning classes should have the determining voice in government. Thus, all that is needed to make autocracy a perfect system of government of its kind, is that this ruling minority of the people should be wise, well-informed, and unselfish.

If, ignoring the factor of moral restraint, you carry the democratic viewpoint to its extreme you get Bolshevism; if you carry the autocratic view to its extreme you get Despotism. Putting the contrast in another way we may say that, human nature being what it is, the danger of democracy is ignorant selfishness and the danger of autocracy is intellectual selfishness. It would, however, be a waste of time to compare the evils which might flow from one or the other of these qualities if it should dominate government, for our day is the day of democratic control and we are at this very moment witnessing the funeral rites of autocracy. The practical question facing the statesmen and politicians of the world is how to secure in government the fullest and most efficient expression of the democratic ideal.

But this practical question can never be satisfactorily answered unless three cardinal principles are constantly kept in view:—

First. That the government must operate within its own sphere and not attempt undertakings which are beyond its powers;

Second. That the mechanism for ascertaining the will of the people shall give intelligent and unequivocal results, and

Third, That, once the will of the people has been ascertained, it shall be put into execution by means of a business-like and efficient administration.

Shorn of all technical phraseology it may be said that the chief concern of the people in government is that it mind its own business, that sound counselors be chosen to decide its policies, and that able men effectively carry out these policies.

Consideration of the proper range of governmental action is complicated by a notable peculiarity of large

numbers of the American people—that they appear to believe that their wishes, as expressed practically in municipal, state, and national legislation, are as good as realized when a law has been signed, and that the task, whatever it may be and however difficult of execution, will not be too much for government to undertake.

But there are many undertakings vital to the social ideals underlying all government, that government itself cannot handle. Our social system depends for its success upon virtue, honesty, temperance, patriotism, industry, and contentment; but government cannot by statutory enactment make a man virtuous, or honest, or temperate, or patriotic, or industrious, or even contented.

The law can compel a man to support his wife, but it cannot compel him to love her; it can regulate the relations between neighbors, but it is powerless to impart the neighborly quality; it can make people equal in the eyes of the law, but it cannot endow with an equal measure of usefulness or with an equal measure of success the bright and the dull, the strong and the weak, the diligent and the idle, the thrifty and the improvident.

Thus set forth these matters seem strangely simple; yet the astonishing fact is that a considerable part of our legislation, our discussion of social problems, our political oratory, and our labor union proceedings are based on the theory that unequal things and opposite things can through governmental action be made similar, equal or identical.

Whoever looks to government not only for the correction of real or imaginary evils but for positive contributions to the welfare of mankind, overlooks the fact that, in its essence, governmental action is, and must remain, largely restrictive, seldom constructive. It places metes and bounds on the action of its citizens,

but, except in minor instances, it is not itself creative. Human nature being what it is, restriction is and probably always will be needed. There is a world of wisdom in the old saying that the best government is that which governs least,—a happy condition in which each man pursues his own ends with so little interference with the rights of others that slight restraint from public authority is required. But this is a conception not realizable under ordinary conditions.

Even were it possible for the government to work such miracles it would be disastrous for it to do so. Such action would destroy the incentive to individual effort, and would place on its own shoulders responsibilities which can only be beneficially exercised by the conscience and will of man.

Many things necessarily and logically fall to the lot of government, among them national defense, the collection of taxes, the administration of justice, the preservation of order and so on. No one would think of questioning these functions. These are vital needs of the public for which only government can provide. No controversy arises over such public services as no private enterprise can successfully undertake.

If, then, there are things that no government can do, and other things that the government can do, there are also some things which both the government and private agencies can do. Whether such public services shall be conducted by the government or entrusted to private hands depends on public opinion as to which can do them better. Thus in the United States, elementary education is everywhere considered a matter of government concern, because an overwhelming majority of the people prefer to see the education of their children conducted as a public enterprise. But there are other mat-

ters concerning which the balance of public opinion seems at times to waver, in spite of that instinctive distrust of government, which is one of the political traditions of our people inherited from early Anglo-Saxon days.

One of the most important practical questions of the day is to what extent the Government shall concern itself with certain undertakings which, up to the last twenty-five years, have in our country, been considered solely within the field of private enterprise. Chief among those undertakings around which the controversy about government regulation and government ownership has centered are the railroads, telegraphs, and telephones. Leaving other enterprises aside for the moment, these will serve as illustrations for a brief survey of the points at issue. The very wide popular discussion of this question, and the voluminous legislation in which an answer has been sought, show that the principle of government control is generally admitted on the sufficient ground that matters so vital to the very existence of organized society cannot safely be left as pawns in a game of commercial competition in which the public has nothing to say about the rules. The real controversy lies between those who believe that government control should be limited to regulation and those who believe that it should be extended to ownership or operation.

The case for government ownership has received its strongest support from two groups, one comprising those politicians who see before them an entrancing vision of many hundreds of thousands of government appointments to be placed at the disposal of political patronage; the other comprising men whose knowledge of business administration has no foundation in experience, and whose views have not been chastened by the actual re-

sponsibility of keeping a great organization in working order.

To the mind of a practical man, familiar with the technical and executive problems of conducting a big business of any kind, government ownership threatens the existence of every condition upon which efficient and economical service depends. A private company must find its own capital, that is to say, it must live upon a supply of capital voluntarily furnished by the investing public. If this supply is not to be cut off the company must pay dividends, and dividends can only be earned if the cost of production is kept down, the efficiency of service kept up, and competition successfully met. In this one sentence we have the Law of the Survival of the Fittest, in so far as it applies to business.

Under government ownership and management this law is nullified. The government does not depend upon a voluntary supply of capital; it can raise all the money it wants in the form of taxes, and is thus relieved from all pressure to run its enterprises at a profit which will attract capital. This would not in itself be a fatal objection to government ownership if the government were under any compulsion to render a high quality of service. But this compulsion would be entirely lacking, for the government would not have to face the competition of a rival; and while the public might complain, universal experience proves that the public does not act either regularly or effectively even in its own behalf.

If the evils of government ownership could be confined to extravagant operation and poor service the case would be bad enough; but it would be accompanied by political consequences far more serious than expense and inconvenience.

The railroads, telegraph companies, and telephone com-

panies of the United States have on their pay-rolls approximately three million employees. If we take a most conservative estimate, and add another three million to represent wives and families, we could safely assume that this class would represent at least six million potential voters, a total equal to more than one-third of the combined vote for Wilson and Hughes in 1916 (17,657,827), and ten times Wilson's plurality.

If so large a proportion of the popular vote should, by the adoption of government ownership, be made a vote of government appointees or employees, our political institutions would be thrown off their balance. Political parties would vie one with another to secure this vote, and the bait offered would take the form of increased wages, decreased hours of work, and relaxed discipline. This result, while ruining the service concerned, would at the same time debauch our politics and present to any party in power the temptation of fortifying itself in office by indirectly purchasing the votes of all government employees, through concessions for which the whole country would have to pay. We have had enough experience to justify this statement as a general principle; and with our other war experiences in business the Adamson Law confirms it.

Nor does the history of government ownership and operation of railroads in countries where such political dangers may be considered as less serious than with us afford ground for arguing that against these political risks we could offset the probability of an improvement in service. A railroad system must be judged in the main by its freight rates, for its most important function is to serve as an artery of commerce. Measured by this standard, it will be seen from the following table that the government-owned railroads of the world

are not operated as economically as the privately-owned railroads of the United States. The comparison is based upon pre-war conditions.

OPERATING RATIO AND FREIGHT RATES OF RAILROADS OF THE UNITED STATES AND GOVERNMENT-OWNED RAILROADS OF FOREIGN COUNTRIES COMPARED FOR THE YEAR 1913 (a).

	Average Receipts per Ton per Mile		
	Total (Cents)	Percent. of Increase over U. S.	Ratio of Expenses to Earnings
United States	.729		69.44%
Germany (c)	1.37	87.9%	70.03
Belgium (State Railways)	1.13	55.0	69.73
Italy (State Railways)	(b)	(b)	84.89
Denmark (State Railways)	2.33	219.6	83.94
South Australia (State Railways) (d)	2.12	190.9	82.99
New South Wales (State Railways) (d)	1.90	160.6	69.73

(a) Data for the United States from the Interstate Commerce Commission's Report "Statistics of Railways in the United States," 1914. Data for foreign countries from "Railway Statistics in the United States," 1918, as published by Bureau of Railways and Statistics, Chicago.

(b) Data not available.

(c) Includes 34,814 miles State Railways and 2,212 miles Private Railways.

(d) For fiscal year 1914-1915.

By reference to the above table it will be seen that freight rates on government-owned railroads of representative foreign countries during the year 1913—the latest for which authoritative figures are available—were from 55 to 220 per cent greater than the average freight receipts per ton per mile on the railroads of the United States. On the other hand, the operating ratio, or percentage of revenues absorbed by expenses was lower in the United States, notwithstanding its rela-

tively low freight rates, than in any of the foreign countries for which data are available.

The comparative capitalization per mile of line shows that the railways of the United States are capitalized at $65,861; France (State Railways), $150,439; Germany (State Railways), $120,049; United Kingdom (Private Railways), $274,027; Austria (State Railways), $122,053. These are pre-war figures.

The later studies of the Interstate Commerce Commission seem to show that the cost of reproduction of railway systems in the United States would be greater than the capitalization of these systems.

It has been a favorite point with advocates of government ownership that in all countries the postal service is operated as a government monopoly. There is, however, a weighty reason why this argument cannot properly be adduced in support of a similar arrangement for railroads, telegraphs, telephones, and other public services. The postal service, except possibly in countries of very small area, should never be run with a view of making it a source of revenue. This, although a relatively new attitude toward this service, is nevertheless coming everywhere to be recognized. What the general postal service is really intended to do is to encourage communication between individuals, and to facilitate the distribution of newspapers, magazines, and books, as agencies for informing and educating the public. Within reasonable limits, what we demand of a postal service is not that it should be cheap but that it should be efficient; and, from the very nature of the undertaking, in any large country a great part of the mail must be carried at a loss. This is a situation which private enterprise cannot meet, for private capital will not knowingly enter an unprofitable field. If the government did

not run the post-office, no one would run it, except in the paying centers or at paying rates.

Moreover, we have excellent reasons for the belief that our post-office system is not so efficiently managed as are private companies doing like work. Aside from the general complaints of the last few years, a much more trustworthy proof is found in an investigation made by the Alexander Hamilton Institute in 1914 as to the relative efficiency and cost of the parcel post service and that of express companies doing similar work. In all respects except cost, according to the testimony of a large majority of some hundreds of shippers from all parts of the country, covering an average business of $118,000 per day, the express companies rendered better service than did the parcel post. The items of service covered such points as speed, convenience in pick-up and delivery, care in transit and handling collections, cost of insurance, tracing of lost packages, adjustment of claims. Even as regards cheapness, some shippers said that the post-office was unsatisfactory, since it took longer to prepare a package for mailing than for express, and if this is lost, the Post-office Department "fills out a paper and makes an attempt to locate it, but it never finds the goods."

Even where the cost to the shipper averaged somewhat less, it by no means followed that the public gained, since the auditor of the Post-office Department acknowledged that there was no system of cost-accounting for the parcel post by which to judge efficiency of service in that respect. The railroads claimed that the low rates to shippers were made at the railroad's expense and it is impossible to tell from the records who paid for lessening the cost to the shipper. Until the Post-office adopts an accounting system somewhat resembling that of the

express companies, it cannot properly claim even lower costs.

Therefore, if the American people were thoroughly to understand the facts in the case and the consequences which would flow from the decision, it does not seem in the least degree likely that they would consent to abandon the ownership and operation of the great transportation systems of the country to the tender mercies of the government. This, as well as many other questions, cannot be settled upon any inherent principle of government, but must be decided solely upon the basis of expediency. There is always a danger, however, that sentiment, no less powerful for being ill-defined, will play too prominent a part in such decisions. For this reason, a purely dispassionate review of governmental action in similar cases is necessary, and such a review results in a low estimate of governmental efficiency.

This should not be disheartening to those who understand that government exists to establish justice, not efficiency, although there appear to be many who invest government with a peculiar sanctity. The instinctive feeling of this group is that the government is, by its very nature, superior in its ideals and operations to the people who compose it, and in this notion we find a reflection of the old idea that the king can do no wrong. Forgetting that the work of government is done by men of fairly average capacity acting under the common motives that determine men's actions, to some degree these enthusiasts make a fetich of government, and every discussion of practical questions of this sort has to reckon with the groundless belief of this large group, noticed in the introduction to this chapter, that there is nothing the government cannot do if it chooses to undertake it.

That government, in any land, is not and cannot be a

model for the "efficiency manager" is a commonplace to the thoughtful observer. Yet this in no way minimizes the ideals on which government is, or at least ought to be, based. There is no disparagement of those ideals when a citizen is intensely critical of what the government does. Our loyalty is to the ideal, not to the men who for the time being are its standard bearers. They may fail, because they are human; but the ideal cannot fail. This feeling that the ideal and the practice of government are never one is the thought which the founders of democracy expressed in the oft-quoted phrase, "Eternal vigilance is the price of liberty,"—eternal and continuous vigilance, and a certain healthy discontent.

Discontent with the operation of government is a normal and helpful function of life in democratic countries. It springs from two causes: first, extravagant hopes looking toward a far wider sphere of governmental action, which are by their very nature foredoomed to disappointment, and second, the more modest and reasonable hopes, which modern government has as yet not gone far toward satisfying.

The wisdom of any system of government may be in good part judged by the provisions it makes for the economic advancement through their own efforts of those who are lowest in the scale of material welfare. A nation is well governed, in other words, only when the function of government is wisely and successfully exerted for the amelioration of the conditions, physical, mental and moral, of the less fortunate classes of its constituent population. Opportunity for self help is best, though in times of calamity or in cases of the defective or most unfortunate, charity should be considered a function of the State. Great national wealth, even though

it be widely distributed, and although general prosperity prevail, is by no means indicative of good government if at the same time there exists preventable or remediable distress among any considerable number of the citizens. The criterion of good government, in brief, is the degree attained in the prevention of misery without weakening moral fiber, rather than in the degree of promotion of prosperity.

What government can do—apart from its action in regard to national defense and kindred matters—may be expressed in a single phrase: it can see that the gates of opportunity are kept open for its citizens along the whole length of every road that crosses our political and our industrial life. In other words, it can insure to all men and women the chance to work and win according to their talent and diligence, and their moral fiber, and can guard the path to success from obstructions by trickery, fraud, oppression, or monopoly.

III

POLITICS AND THE CITIZEN

BECAUSE our public affairs have always been dominated by party politics we have taken it for granted that they should continue to be so dominated. It is, we believe, unavoidable that our form of government should be permeated with party feeling, yet too much partisanship is often an unhealthy symptom both in legislation and administration. We need not go so far as to insist that political practices are necessarily an evil, because they are in fact a public good when in the right place. But when political activities get out of their right place we should have no hesitation in pronouncing them an evil though not a necessary one.

This consideration of politics apparently removes us from the rather theoretical questions concerning the general function of government, which we considered in the preceding chapter, and leads us to the very practical question as to what persons should compose the government. No one will contest the general fact that government in a democracy should reflect the will of the people. Government, then, faces three problems, allied yet distinct; namely, to ascertain the will of the people, to express that will, and to carry it out,—in other words, election, legislation and administration. Politics, as commonly understood, may be described as the gentle art of securing and retaining power, and has its birth in the first of these functions—that of ascertaining the will of the

people. Though it sometimes exercises a beneficial influence, its effect is more often baneful upon the other two functions,—legislation and administration.

Nothing is more unwise than to underestimate the force of the politician or to deride his abilities. Leadership is not attained either in business or in politics without the use of brains, and the man who is often contemptuously referred to as "the boss" is no weakling. That is why he is a successful vote-getter. It does not, however, follow that, because a man is a successful vote-getter, he is a wise legislator or a prudent administrator. Many a successful candidate has turned out a failure, and if there is any truth in the cynicism that a statesman is a successful politician, it is often because men rise above their source, out of politics into statesmanship. As the old formal logic would have it, some politicians are statesmen, and it is equally true that some statesmen are politicians, but all politicians are not statesmen, neither are all statesmen politicians. The process of selection through election may result in the survival of the fittest—to be elected. This is very far from saying that it results in the survival of the fittest for the service for which they are chosen.

In its political phase, government presents its own peculiar difficulties which fall into two classes,—those concerned with the machinery by which representatives of the people are chosen, and those which concern the character of the representatives themselves. All the discussion for many years past about political machinery—the primary and the convention, the short and the long ballot, the Initiative, Referendum, and Recall—only serves to emphasize the fundamental fact that primarily it is not in the intricacies of political technique but in the character of the vote that good government has its

roots. The recluse in his study may deplore the imperfections of human institutions, but the practical man who really grasps the situation should get into action and contribute what he can to improve it.

No attempted perfection in the political machine can work an improvement in government if the voter remains ignorant of public issues or if large classes of the most intelligent citizens fail to vote and refuse to seek office. The effect of such abstention from the polls is to throw the control of politics into the hands of professional politicians, whose chief concern is to provide themselves with a living. This would not matter so much if they were possessed of talent which enabled them to serve the public's interest while serving their own; but this is usually not the case, and to-day it is from the general incompetence of politicians rather than from their occasional dishonesty that the cause of good government has more to fear. The matter is of such vital importance that it will bear some elaboration.

We have to consider, on the one hand, those who go into politics; on the other, those who stay out. Of the former the most important group both numerically and from the standpoint of the influence they exert, are the lawyers. The extent to which American legislation is dominated by lawyers is at once apparent to any one who will take the trouble to study biographies of the members of the Senate and House of Representatives. An examination of the current Congressional Directory will show that of 430 members of the House of Representatives 255 or 59 per cent are lawyers, while among the 96 members of the United States Senate 58 or 60 per cent belong to the same profession. It is clear that the numbers cited are far in excess of any that might be anticipated by considering the whole number of lawyers

in the United States, as compared with the total population.

This overwhelming influence of the lawyer upon our political life is based historically upon conditions that are rapidly passing away. Whether democracy chooses the wisest and best leaders may be questioned, but there is no doubt that up to the present it has chosen leaders —not followers,—men in one respect or another superior to the rank and file. The lawyer, by his office and training, became naturally a leader, especially in the rural districts; indeed, there was a time when the lawyer was the leading citizen of every American community. In Latin-American countries, where lawyers are not so numerous as with us, men turn to the physician as the man of education, and the medical profession plays a political rôle almost unknown among us. In far off Liberia where there are scarcely any lawyers or physicians it is strangely enough the minister of the gospel who is crowned with political honors.

Added to the prominence which the lawyer thus acquired in American communities was the fact that by his education and experience he was naturally fitted to be the spokesman for his community, since a not inconsiderable part of his preparation for his calling lay in cultivating the gift of expression. What more natural, therefore, than that one thus equipped should be called upon to voice public sentiments at election time. The doctor and the preacher have instinctively held aloof from politics, and the lawyer's chief competitor has been the newspaper editor, another class of men trained in the art of expression. It is interesting to find that both candidates for the Presidency in 1920 were trained, successful newspaper men.

The lawyer owes his prominence to the fact that his

training fits him in a high degree not so much for government as for politics. So long as mass meetings constitute the chief method of political campaigning the man of many and easy words has a natural advantage over his competitors. Until recent years his rival, the merchant, the banker, the manufacturer, or the engineer, has been known wholly by his works and not his words. But the multiplication of conventions, associations, chambers of commerce and similar bodies has brought many of these men upon the platform, and the public at large is gradually learning that the gift of speech-making consists largely in having something to say. None the less, up to the present we have clung to our traditions and have elevated the lawyer to a dominant place in all legislative bodies.

Lawyers, as a class, should of course be represented in any legislature, but their enormous over-representation in Congress involves disastrous consequences. Observation of lawmaking bodies in many countries leads to the conclusion that lawyers make a most unsatisfactory type of legislators. It is not that they lack intelligence but that the whole course of their professional training and practice tends to unfit them to play an important part in constructive enterprises of any kind. Throughout his career a lawyer is occupied, not with the reality of things but with the appearance they may be made to bear in legal argument; not with the consequences which flow from an action, but with the legitimacy of its origin. He is always concerned with the past as a source of precedent rather than with the future as a field for achievement. Pending legislation is often to the lawyer something which will later be discussed and interpreted by lawyers, instead of an instrument designed to effect a definite practical aim. It is

largely due to the lawyer's attitude towards legislation and to the influence it has exerted upon the form and texture of enactments that so many laws passed for the purpose of removing abuses in our economic and industrial system have, until recently, resulted in many lawsuits and little reform.

But our political shortcomings are as much due to those who stay out of politics as to those who go in. Editors, as has been already noted, doubtless have their full share of representation, but what shall we say of the great fields of finance, commerce and industry? That such vital interests should be inadequately represented in a nation which does more business than any other, which leads the world in engineering, and which has a larger laboring population than any other non-Asiatic country, indicates that there is something seriously wrong with our political method. The defect lies in the fact that both as to voters and as to candidates for political office, a great body of our most serviceable men are what may be called absentee citizens,—they withhold themselves both from the polling booth and from the nomination list.

As regards the abstention from voting the remedy may in part be found by devoting more attention in our schools and colleges to the subject of civic duty, and in the extension and development, both among Republicans and Democrats, of the educational work performed by such organizations as the National League of Republican Clubs and similar bodies. Education, indeed, is the key to the situation.

But an increase in the number of intelligent voters will not of itself effect any profound change in our politics, unless the voters are supplied with a better class of candidates for office. Viewed as the country's and

the world's greatest business organization, our Government must necessarily depend for its success upon the same factors which make for success in other large businesses. One of our most pressing needs is to secure a larger number of business and professional men for the government service, as legislators and office holders. This shirking of their civic responsibilities is highly discreditable in our men of affairs. They have regarded politics as a matter of merely academic interest, or, with unctuous rectitude, as an unclean vocation. But the plain, unvarnished reason for the failure of so many business men to discharge their political duties has been their unwillingness to make the necessary sacrifice of social pleasure, of business opportunities, and of monetary reward—a point to be more fully discussed a little later.

There is fortunately, however, a growing realization that our business prosperity no less than our civic efficiency depends ultimately on the political conditions of the country, and that in politics, as in business, integrity of purpose and straightforwardness of methods are essential to abiding success. That other callings besides those of the lawyer and the editor could furnish constructive thought to the work of legislation will hardly be questioned.

Reference may properly be made at this point to the contributions that ought to be made to our political life by a profession which has been closely identified with the country's economic progress,—engineering. The engineer is exceptionally well qualified for public service. The quality of his training and the nature of his work compel him to take up every problem in the spirit of empirical science,—a search for the truth; and he is accustomed to arrive at his conclusions only through a process of reasoning instead of through the influence of

sentiment. The success of the engineer's career depends upon the realization of his predictions, and he cannot, with any effect, urge extenuating circumstances to explain his failures.

The extremely practical character of his work makes it second nature for the engineer to expect performance to follow upon the heels of promise, a quality entirely lacking in the average politician, whose principal aim seems to be to beguile the voter with a pleasing assortment of political panaceas. This sense of responsibility in the engineer is developed by his intimate association with the details of his enterprise. He cannot sit forever in an office and transmit his orders by telegraph and telephone. He must for a great part of his time be actually on his job, in close personal contact with his foremen, his mechanics, his laborers; and it is from this contact that he acquires a knowledge of men, of their thoughts, their needs, their ambitions—i.e., the human equation, the most important factor even in politics.

It is not to be forgotten, also, that the engineer plays a great part in the general progress of civilization. In his quest for the metals, the mining engineer is a pioneer. He is followed closely by his confreres, the civil engineer, the mechanical engineer, and the electrical engineer, each of whom contributes a unique service in developing the natural resources of the world and in laying out and building up those great industries in which both capital and labor find their employment.

Like the engineer the trained business man is peculiarly fitted to solve political problems. The large majority of political questions, domestic and foreign,—the tariff, taxation, banking laws, transportation regulations, contract,—deal with business, while from the very nature of his daily work the business man, like the states-

man, is in contact with his fellowmen. Of business men, as of engineers, it is unfortunately true that they have taken little part in politics.

It would, however, be unjust to the followers of these callings if the blame for this state of affairs were to be placed entirely upon their shoulders. To a large extent the condition is due to a number of very unsatisfactory features in our political system. The successful man of business, in whatever field, has in most cases at the age of forty years well established himself. He is usually in the class that pays surtaxes on its incomes. He occupies a position of power and influence among his associates, and has reasonable grounds for expecting his position to improve as time goes on. Suppose that such a man is ambitious for a public career, and becomes a candidate for a State Legislature or for Congress, what must he expect to face? In the first place his general character would fall under the attack of his professional political opponents, and his name would be associated with all those insinuations and charges which are the mean and common weapons of political warfare. In addition, if he were elected to Congress or to a State Assembly, the first thing that would happen to him would be that his net income would be reduced by probably fifty or seventy-five per cent.

Let us suppose that he accepts this sacrifice as his contribution to good citizenship, and decides to do his best toward the furtherance of constructive legislation. A very short experience in a legislative chamber would serve to convince him that the majority of his fellow members were more concerned about party advantage and reelection than about the public welfare, and that legislative debate was addressed less to the merits of the points at issue than to the need of placating the animosities and

pandering to the prejudices of a member's constituents.

If such a legislator should decide to hold himself aloof from the chicanery of politics and to vote only according to the dictates of his conscience and the voice of his reason, he would soon find himself regarded as a crank by his opponents and a party traitor by his associates; and the party machine would see to it that he was defeated at the next election. Nor would his position be greatly improved if he took the opposite course and became a staunch party man,—a vote that could always be depended upon. In such a case he could only hope, as a minimum result, that his district would continue to retain him so long as the majority of its voters remained loyal to his party, and, as a maximum, that he could secure some high political post—the governorship of a state, a cabinet position, or a diplomatic office. On the most favorable supposition he would at the end of ten years be a poorer man than when he entered politics, while the attainment of any post would carry with it no assurance that at the next election the defeat of his party would not relegate him to private life.

A patriotic man might well face these dispiriting manifestations of American political life if there were any strong likelihood that he could render some really memorable service to his country, or that he would find in an enduring public esteem some compensation for the loss of time, of money, and of peace of mind. But no such prospect is before him. Whatever political power he may gather into his hands through long years of strenuous activity he can scarcely hope to employ in the public service, for the energy he has hitherto expended in securing power he must now largely expend in retaining it. He will have to meet not only the fatuous criticism of the opposite party, but also in many cases the paralyz-

ing obstruction of jealous rivalry within his own party.

The commentary of Lord Macaulay upon English politics applies with vastly greater force to American politics. Speaking of the Right Honorable T. P. Courtenay, who had recently retired from Parliamentary life, Macaulay says: "He has little reason to envy any of those who are still engaged in a pursuit from which, at most, they can only expect that, by relinquishing liberal studies and social pleasures, by passing nights without sleep and summers without one glimpse of the beauties of nature, they may attain that laborious, that invidious, that closely watched slavery which is mocked with the name of power." Moreover, against the slender prospect that he may serve his country well as a legislator or as an administrative official, the American politician of ideals must set the certainty that his efforts will at the best be rewarded by public opinion with neglect, and —at the worst with contempt.

The situation outlined above is surely not one always to attract the best type of man to political life. Yet, to-day, more than ever before, we are faced with problems of statesmanship which for their successful solution will require all that is wisest, most humane, most upright, most constructive, and most experienced, in American character.

How are these higher elements to be mobilized for the service of the country? How are we to redeem our political life from the state into which it has fallen through becoming the refuge of mediocrity? Upon finding the right answer to these questions will depend the fate of the United States in its dealing with those great moral and material problems for the solution of which the war has paved the way, and for the struggle with which the idealism of a righteous cause for war, the discipline of

war, and the unifying influence of war have prepared the mass of our people.

If these questions were approached from the standpoint of political technique, if we were to discuss primaries and conventions, pledges and platforms, party funds and party bosses, we should merely be entering upon ground which has been so plowed up by the shells of controversy that every road has been obliterated. All these matters, it is true, must be taken into account in due season, but to entangle oneself in a maze of detail when fundamental principles are at stake would be to miss the political resurrection by stopping to fuss over one's ascension robes.

Our immediate need is not a new machinery, but a new conception of politics. If we can give the voter a broader, a truer, a nobler vision of the part which politics plays in the general welfare of the country, it will not be in the power of disease in our political system to blight the harvest of good works. The new era will dawn when we come to recognize that the foundation of every political edifice of which democracy is the architect is the character of its citizens; that no beauty of design, no grandeur of scale, no detail of ornament can save that building from crumbling into ruin if the foundation is not kept sound.

Once this principle is thoroughly grasped, once it has become as much a part of our political consciousness as honesty is of our social consciousness it will be possible to pave the way for the participation of thousands of men in political life who now hold aloof, but whose influence, once they enter politics, will elevate its tone, increase its efficiency, and make a political career as undesirable for the undesirable citizen as it now is for the desirable.

IV

IDEALS OF AMERICAN DEMOCRACY

Most men find it hard to explain exactly what they mean by democracy, although of recent years the term has been on everybody's lips. It seems to mean one thing in Great Britain, another in France, another in Italy, another in Switzerland and another in Russia. It means, in fact, so many different things that men often try to steady their bewildered brains by qualifying it as a "real" democracy or "true" democracy. It is, indeed, an elusive will-o'-the-wisp, defying definition, and it is not our purpose here to add another futile attempt to bring it within the confining limits of a phrase or set of phrases. We are concerned neither with the abstractions of philosophy nor world problems, but simply with the problems which at this time confront the American people.

In the preceding chapter we considered the importance of insuring a larger participation in politics of the best elements of American life. National affairs cannot be adequately handled, in the manner most conducive to our national welfare, so long as these elements hold aloof. The course of events during the war demonstrated conclusively that there was no lack of good will, no holding back from whatever public service promised to advance the national cause. Nor was this patriotism and loyalty of all classes a temporary ebullition of sentiment. It is an old saying that one cannot gather figs from thistles. If, then, in times of peace we do not have the same re-

sponse of all classes to the call of public service, may it not be because under a cumbersome machinery of party politics we have so muffled the call that men do not hear it? Indeed, if American democracy has not made the progress that we expected of it, is it not because we have fostered or tolerated parasitical political growth which, like the barnacles on a ship's keel, impede its progress? If democracy is to exist and grow stronger in the future, it can only be by a full realization of this truth, and by insuring the freest and most conclusive expression to the mature will and convictions of the people. To show how this is to be brought about is our present endeavor.

Reduced to its simplest form the goal for which we must strive is our reestablishment upon a solid foundation of *representative* Democracy laid down by the Constitution of the United States. The nature and extent of our political ills can be measured by the distance we have traveled from that historic landmark. We have gradually fallen into the practices of *delegated* Democracy, and those who urge upon us the Initiative, the Referendum, and the Recall, would drive us to that extreme horizon of *direct* Democracy from which vantage point the pole of representative government is scarcely discernible.

The direct bearing of these different types of democratic government upon the question of producing more intelligent voters and better legislators is easily established. In a representative democracy the voters pick out a man to represent them. The representative is supposed to have a free hand and to be subject to no direct persuasion as to how he shall vote on any particular question. Under such a system the successful candidate has joined in him both responsibility to and authority from those whom he represents, and it is in the union of these two

elements that we find the attraction which draws men of the highest character and ability to any occupation in which it is found.

If the representative quality in political choice is firmly fixed in the voter's mind his sense of responsibility will be quickened, for he will realize that he is handing a blank check to another man, trusting that man to fill in the amount, and foregoing himself the right to stop payment at the bank. Since the only power he retains over his representative is that of denying him reelection, he must face the full consequences of his choice in so far as the present term is concerned. The representative on his side must depend upon his general record to secure his reelection.

In the main, of course, on questions of general policy the voters of each party select a representative whose views accord with their own, but regarding many questions of the highest import he must be allowed to follow his own judgment, especially if these are complicated, as in the case of legislation dealing with banking or taxation. With reference to these matters the representative is in a position to study the details of legislation much better than can his constituents, and he assumes the position of a skilled expert, directing the people's cause as an engineer or a lawyer represents his clients. Such a representative must, of course, hear all that his constituents have to say, but the decision must be his own.

Another matter of great import is that in the national government, although representatives are elected by local constituencies, they must speak and vote in the interest of the whole country. Usually the interest of the locality agrees with that of the whole country, but, if these interests are diverse, the representative's oath of office should compel him to consider his country before his

district. He is a representative, but not a mere delegate, and the fact that he must in some cases vote against the will of his particular district in order to conserve the good of the nation as a whole militates against the delegate theory of democracy as much as do good judgment and political expediency.

Of late years we have witnessed a decrease of faith in the representative system on the part of a large element of the population. This phenomenon must be laid to the fact that with the development of powerful party machines, and by their seizure of nominating conventions, it came about that the representative no longer truly represented the voters, or even the voters' representatives in convention assembled, but only that portion of the voters' representatives which controlled the political machines that dominated the convention. Thus, the political center of gravity in many cases—perhaps generally,—has gradually shifted. It had formerly rested between the voter and his representative; it has slowly assumed a position somewhere between the local party machine and its delegate,—the nominee offered to the convention.

Slow as these changes were to make themselves felt, they have finally had the effect of leaving us in far too many cases with a machinery of representative government made over to function as a system of delegated government. The voter, instead of choosing a representative, chose a party; the party provided him with a convention, the party machine provided the convention with delegates; and the delegates provided a candidate whose allegiance was no longer to the voter, but to the party machine, and whose vote, after election, no longer reflected his independent judgment on legislation but only his agreement to stand by his party.

As time passed it became painfully evident that our political system was going wrong. The flow of legislation increased to an unprecedented volume, but this immense legislative sowing yielded a very poor harvest of results. Gradually a new element was added to the general discontent: the growth of a conviction in the minds of the body of voters of all parties that the government of the country had been taken away from them and had been vested in the inner cliques of the party machines. This discontent found its expression in a demand that the power of government should be "restored to the people," and among the methods selected to achieve this purpose were the direct election of United States Senators and the substitution of the Primary for the Convention as the means of securing candidates.

These changes represented the views of the moderate element in the two great parties, but to the mind of the extremist a more drastic remedy commended itself,—no less than a proposal to accept the failure of representative government as settled, to ignore the fact that the seeming failure was due to the gradual disappearance of the representative quality in our government, and frankly to accept the idea of delegated government and set it up in place of the representative type which it had slowly corrupted.

The instruments by means of which this profound change in our political institutions was to be effected were the Initiative, the Referendum, and the Recall. Whether or not these experiments will make for good government in the United States in the twentieth century only the application of them can finally prove, but there can be no doubt whatever that their general acceptance would completely alter the character of our government, would destroy the principle of representation on which it was

founded, and would provide us with a system which no great nation has adopted since the pagan days when Greece was the center of the world's civilization.

Moreover, the Initiative and Referendum, if frequently used, would drive from public life a large proportion of our ablest politicians, and the Recall would drive from public service on the bench every self respecting lawyer. Few honest and competent citizens would leave a business or professional career to enter one in which the representative's part would be hardly better than that of a messenger boy, and in which personal ability and experience would count for little or nothing. Applied to the Judiciary, the Recall would indeed remove the bandage from the eyes of Justice. It would also strike from one hand the scales, whilst leaving in the other the sword. Surely, no lawyer of repute could be found who would consent to occupy a bench from which he would be called upon to dispense overnight public sentiment, and from which overnight public sentiment could drag him any morning.

The best that can be said of the Initiative and Referendum is that in Switzerland where they have been used most, the cantons are in some instances so small that the laws proposed are voted on in mass meeting. In the large cantons and in the Central Government, the process is optional on the basis of a large petition. The Swiss people have had a long experience in self-government and long practise in the use of the Referendum and Initiative, but even their experience would not seem to make advisable the extension of the system to this country. They have usually been very conservative—so much so that they have often defeated, and thus delayed for some years, essential reforms later adopted. Again, in some instances, as in the anti-vaccination and anti-Semitic

movements, skilful agitation has swept the voters with a gust of passion and legislation has been enacted that later had to be repealed.

Even though the Swiss plan had always worked to the best advantage, Swiss conditions differ so vastly from those in the United States that they can hardly be made the basis of argument or analogy. In addition, it should not be forgotten that we now have a type of referendum in the matter of revisions of our constitutions. On broad simple questions such as really belong in a constitution, where what the people wish is of more importance than any special form of expressing it, the referendum is sound. The people can well judge whether trial by jury or quartering of soldiers on them is a good thing and whether or not they wish it. They cannot well judge the details of a banking law or a tariff schedule or a labor insurance law. They would be swayed more by a skilful demagogical appeal against "Wall Street," or "Monopolies," or "Gary," or "Morgan" on the one hand, and "Socialists," or "Trade Unions," or "Debs," or "Gompers" on the other, than by any careful or well reasoned study of facts and principles. But they could easily pick out the man whose trained judgment they could trust on these technical questions, if only there were fair methods of electing such men as their representatives.

Each of these revolutionary proposals, the Initiative, the Referendum and the Recall, breathes a spirit of distrust, not only of the people's representatives, but also of the people themselves. The representatives, say the proponents of these radical theories, cannot be trusted to initiate legislation (although any responsible citizen has no trouble now in having a bill introduced into any of our legislative bodies), the people, therefore, must have

the power of initiative. Moreover, since this initiative by the people cannot itself be trusted to insure proper legislative action, it must be subject to a referendum. Even the referendum cannot be trusted, for the recall must be held over the head of each official—legislative, administrative, and judicial—who is charged with the duty of giving effect to the decree of the referendum. The whole thing is a nightmare of distrust, a humiliating spectacle of political panic. Certainly, no argument has been advanced in favor of the Initiative, the Referendum, or the Recall, which proves that the reforms which their advocates predict from putting them into operation could not be effected with equal certainty and without tearing our political institutions to pieces if we should go back to the true principles of representative government. By making only such few changes in its machinery as experience has proved to be necessary we should be able to accomplish the reforms desired, and at the same time be guarded against the Swiss experiences.

It must be admitted that Congress and the State Legislatures did at one time justly fall under the suspicion that they contained too many men who represented special interests rather than the public welfare, and that corruption had come to play a part in the election of legislatures and in the votes of legislators. But the past twenty years have witnessed a great change for the better, and so far as honesty is concerned our national and state legislatures have never been at a higher level than they are to-day. This improvement has been effected without the aid of the Initiative, the Referendum, and the Recall. It has been brought about by several agencies—primarily by the educational and moral influence of publicity, in part by the popular election of Senators, and probably

also in part by the adoption of the Primary as a means of selecting political candidates.

One of the principal causes of dissatisfaction with the two-party system has been that under the conditions that have developed along with party organization, neither party is at times responsive enough to new issues of real importance to the public. Failing to secure the endorsement of either party, advocates of a new political idea or measure have from time to time banded themselves together to form a new party with a platform centered on this particular measure. The success of a third party, of course, depends upon the popularity of the principles for which it stands and upon the influence of its leaders and principal adherents. Rarely, however, has a third party succeeded in establishing itself as a political power, and failing in this, it can influence the already existing parties only to a small extent, and succeeds only in withdrawing voters from those parties. The achievement of third parties even in this particular is relatively small.

Is the third party method after all the best way in which to institute a needed measure or to bring about a desirable "reform"? Granting that the purpose for which the third party is organized is highly desirable, it is proper to take also into consideration the cost in effort, the diversion of public attention from other matters perhaps equally important, the disorganization of political strength, and the confusion of political ideals. If the same amount of effort were expended within a single existing party, would not more practical results be obtained? Unless both of the leading parties have become utterly unresponsive to a considerable portion of the electorate, the "third-party" method of advancing a political ideal or a specific measure would seem to be cumbersome as well as expensive. Of course, if one of the two prin-

cipal parties has become ineffective even as an opposition party, a new political organization might eventually be expected to take its place and gradually absorb it.

The natural alignment of the voters of a State or a Nation is in the two-party political system—the party in control and the party in opposition and seeking control. Public opinion crystallizes itself for and against a set of general political principles and for and against the actual results arising from such principles when put into practise. If public conscience is alert, if public interest does not entirely flag, the alignment of practically all elements of the electorate along two lines is sufficient to maintain the proper balance between reactionary conservatism and radical progressivism. A third party under ordinary conditions tends to disturb this balance.

Honesty in politics will never fall to its former low estate if our aroused public conscience is kept awake. Our real task to-day is to secure competence in politics, and this is difficult of accomplishment. Legislative honesty is easily defined, easily understood, easily made the subject of public agitation. Legislative dishonesty, when proved, can be visited with severe punishment. Legislative competence, however, is a highly complex matter. As its definition must be framed in terms of opinion and not in terms of law, no sharp line can be drawn between competence and incompetence, and it is only when they are exhibited in an extreme form that they are clearly distinguishable. Even when they appear in that form the artifices of the politician can at times be successfully employed to make the one look like the other, and if, despite all his attempts at concealment, a political leader is finally exposed as incompetent, his punishment is limited to the withdrawal of popular support, and our politi-

cal history shows that it is by no means certain that even this punishment will be meted out to him.

The only way of dealing with this sort of difficulty is to dig down to the roots of the matter to find the causes. In the present problem there are two such causes, closely intertwined. One is that the highest character of the country and its highest ability, despite individual exceptions, are not adequately represented by our legislators and administrators,—and this alone is sufficient to account for the present seeming failure of our representative system. The other cause is that our political machinery, as it is now operated, attracts but few of our best men to the nation's service.

Our corrupt practices acts and the direct primaries have, indeed, greatly reduced the opportunities for the corrupt use of money in elections, but money still possesses an undue influence. In the race for primary nomination the candidate who has at his disposal the largest fund does, without any corrupt use of it, enjoy a great advantage, for he can afford the expense of a much wider campaign of publicity. For a man who has not already been in public life, and whose name is therefore not well known to the voters, the great expense for such necessary publicity is well-nigh prohibitive. Although the primary was established by the reformers as a defense against the political bosses and the political rings, the system seems in many respects to have played into the hands of these bosses and rings. Not only is the expense of publicity necessary, but the people have shown much the same carelessness about attending the primaries and casting their votes as they showed in attending the party caucuses of earlier days. In consequence the party leaders and their henchmen find it almost as easy to pack the primary as they did to pack the old-fashioned caucus. Indeed, inas-

much as the primaries are held for both parties at the same time, it is even easier now for unscrupulous politicians to manipulate the nominations of the opposing party than it was in former times, and it has, of course, been long recognized that party advantage can be secured as well by providing a weak candidate for the opposition as by offering a strong candidate for one's own party.

The indifference of the public toward the primaries, as compared with their attitude toward an actual election, is well shown in the figures regarding the New York State Primaries of September, 1918, and the votes cast that same year at the regular election. For example, at the election there were cast for the Democratic candidate for governor, Smith, 1,009,936,—at the primary 199,752; for the Republican candidate, Whitman, at the election 956,034,—at the primary 295,471; for the Socialist candidate, Ervin, at the election 121,705,—at the primary 9,687; for the Prohibition candidate, Whitman, at the election 38,794,—at the primary 5,855. Disparity of this sort obtains in a greater or less degree in all the other Northern States. In the Southern States, however, where the nomination of a candidate on the Democratic ticket is usually tantamount to election, more interest is manifested in the primaries and often more votes are cast at that time than in the following regular election.

These returns show a basic weakness of our nomination system even under the direct primary plan, and the results have been much the same as under the old-time caucus system—somewhat worse perhaps. The only remedy for this state of affairs lies in training the voters to realize their responsibilities; in educating them to see that they have already lost the election at the primary, so far as securing the best candidate goes, if they have neglected their duty.

Aside, however, from this fundamental remedy for the evil,—education of the electorate,—it is probable that the expense of the primary could be lessened, and the usefulness of the system greatly extended and,—at the same time all its advantages preserved,—if the primaries were employed, not as a means of nominating candidates for office, but rather for the purpose of electing delegates to a nominating convention. The effect of this change in the primary system would be to give us back the convention plan, which is spite of its weakness has still many excellencies, especially if it be purged, in part at least, of the evils which led to its abolition.

It is easy to see how this proposed change at the point where the primary is employed would remove some of the objections formerly urged against the convention as the agency for political nominations. With the primary working as it does at present, the reward of the victor is the nomination of his party, which brings him only one step from actual election. For such a reward a man eager for political office is willing to raise a large campaign fund. But if what is decided at the primary is not the nomination of the candidate but only the make-up of a convention at which the candidate will be nominated, the reward in sight is only a fractional share of the power through which the candidate will receive his nomination. Not only would it be impossible for any man acting in his own interest, but also impossible for any party acting in the interest of a particular man, to accumulate by the employment of money enough of these fractions to acquire the power to insure in advance the choice of the convention.

From such a change as this there might reasonably be expected to follow a gradual improvement in the type of men offering themselves for election. The prospective

candidate would be relieved of the necessity, repugnant to any self-respecting man, of loudly advertising his abilities, and of submitting to an equally vociferous attack by his rival. The decision as to the best candidate having been removed from a large and comparatively uninformed electorate to a select body of representatives in convention, the nomination would be made under more dignified circumstances, by men who would be likely to have a personal knowledge of the candidate; and the responsibility of choice, instead of being diffused and lost among the mass of voters, would be concentrated among a small body of known men upon whom it could be definitely fixed by the record.

V

THE STRUGGLE FOR GOOD GOVERNMENT

THE three essential phases of government are election, legislation and administration. Politics is the root of the first; it has a legitimate influence on the second, but for the third it is anathema. The United States suffers more than any other country from a popular failure to distinguish clearly between them. Too often we do not realize that the abilities which make an effective politician are far from being the same as those which make a good administrator; indeed the qualities which enable a man to attain office often make him totally unfit to hold it.

The tradition that impassioned oratory is the principal need of a man in public life comes down to us from a time when we were fighting to emancipate ourselves from European domination and it was necessary to support our cause with rhetoric and glowing argument. Our present needs are different. In these days, in the administration of government, deeds, not words, count. American democracy won its fight for free government in the eighteenth century,—its fight in the twentieth must be for good government; and just as there can be no good government without good administration, there can be no good administration until administration is divorced from party politics and partisanship.

Partisanship, however, is entitled to a certain place, especially in the conduct of elections. An election which

did not involve party politics would cease to be an election in the vocabulary of popular government, for politics and policies are words closely allied; and since, in theory at least, the purpose of political parties is to determine policies and to choose the men who will carry out these policies in the name of the people, elections without politics would belie their name. This gives us a clue to the proper scope of elections, and to the proper sphere of politics. Elections that go beyond the choice of men to determine or to carry out policies and reach out into the field of administration that does not belong to them are likely to do more harm than good. Party politics is necessary in those steps of governmental action which influence policies, but harmful when it goes beyond this point.

Party politics we understand to include the art of obtaining and retaining power in office. This power means nothing more than opportunity to exercise an influence on the choice or administration of policies. Power and place are often confused. Place is not power, and politics in the true and legitimate sense has nothing to do with securing place. The man who attained the distinctive name of "what-are-we-here-for-Flanagan" was a place-hunter, not a politician; it is the debauchery of politics into a mere scramble for jobs that has attached an odium to the word.

In Congress and in our State Legislatures men are often accused of "playing politics." Doubtless this is a correct statement, but should it be deemed an accusation? If democratic government makes it a proper aspiration for men to seek power in public affairs in order to have an opportunity to benefit their country, why should they be condemned for seeking to retain it? The contention of some enthusiasts that party politics should be banished

from legislative practice is untenable, although it would be equally improper to give it the foremost place among the legislator's functions. His main business is to strive to give fitting expression to the will of the people in the enactment of laws. But just what is the will of the people who elected him it is often difficult to determine. If it be conceded that he has a very definite knowledge of the purpose of his election and what he was expected to do, he cannot, and ought not, to be unresponsive to changes in public sentiment which may have occurred since his election. Indeed, he would be less than human if, losing sight of possible reelection, he failed, as the modern phrase has it, to "keep in right" with the people who elected him.

But on the other hand the assumption that the legislator should be governed entirely by local sentiment in matters involving the national welfare is certainly not to be commended, although in practice it has gained some currency. A representative stands not merely for the comparatively few people who have elected him, but for the people of the entire country, and he should study not only the interests of his immediate constituents, but national interests as well. From his vantage point he has the opportunity of consulting with representatives from other constituencies throughout the country, and may well form opinions more wisely than can his constituents. And yet, a representative should by no means neglect the local interests of the people who elected him. It is, of course, the business of the representative to look after the interests of his constituents and to serve them in every way possible, as long as this course does not conflict with the broader interests of the state or with what he conceives to be correct principles.

If the voters feel that they have chosen their most

representative citizen, and if the representative is made to feel that his prime duty is to investigate independently, and to exercise his individual judgment and responsibility as to the best method of promoting the public welfare, the principles by which he is guided will receive in large measure the approval of his constituents. Where a feeling of mutual confidence exists, the people will also concur more readily in the judgment of their representatives, whenever his conception of his responsibility requires him to vote against the immediate interests of his constituents in order to further the welfare of the country as a whole.

Our political leaders too often lack the courage to carry out their convictions. Not having clearly thought out their own duties, creeping along "with an ear to the ground," attempting to catch the murmurs of popular sentiment, many of them seem more like wary delegates trying to discover the shifting and varying indications of public sentiment, than true "representatives" seeking the best interest of all. The great names in our history, Washington, Adams, Jackson, Lincoln, Roosevelt, were no less representative because they thought independently and were not afraid to make a decision. Only when our politicians learn and act upon this conception of representation, and cease to be mere empty mouthpieces, are they likely to have the highest success, and the nation to attain its true prosperity.

The cases in which national and local interests strongly conflict do not, as a matter of fact, occur with great frequency. Nor should a representative ordinarily feel obliged to support legislation fundamentally different in principle from the views he was known to entertain at the time of his election; but where new issues involving irreconcilable differences arise, the representative who properly values his self-respect will not sacrifice his prin-

ciples in order to insure his retention in office. Unquestionably it is better for him by resigning to permit the selection of a representative whose principles more closely accord with those of his constituents, than to yield in such a case to popular clamor.

Governors of states are sometimes, and mayors of cities are usually, in their respective governments, chief executives in the same sense as is the President. As such, they, too, have a share in deciding governmental policies, and since in a democracy policies should reflect the will of the people, we can conceive of no other method of choosing these officers than through elections. But the reason for this lies mainly in the fact that they not only are charged with the duty of carrying out the laws, but that they help to make them. It is one thing to interpret the will of the people by determining the policies to be embodied in law and quite another thing to carry out those policies after they have been formulated. The combination of the two functions is often dangerous, and so thoroughly is this coming to be recognized in certain forms of municipal government, that, after provision has been made for what may be termed a board of government, the administration is turned over to a City Manager, who corresponds to the general manager appointed by the board of directors of a corporation.

In earlier chapters we have briefly considered elections and legislation. We must now consider that third aspect of government,—administration. After what has been said it ought not to be difficult to prove that neither elections nor party politics ought to have anything to do with administration. Yet, if elections enter into it, partisanship cannot be excluded. The first step toward good government is, then, to remove public administration from the elective principle. But even if we do not open the

door to partisanship through election, it is very likely to force its way into administration from other quarters; means must, therefore, be found to reduce its influence to a minimum if we are to attain good government.

We frequently hear it said that what we need in public affairs is "a good business administration." This is a recognition of the fact that the work of government is essentially a business matter, and that government should be run on business principles. Now, the first principle of success in business is that it shall be in the hands of competent men, and it is, of course, understood that those who select them shall be capable of recognizing the abilities needed to fill business positions. The ability required to handle a department or bureau of government is always of the executive type, and to this must in many cases be added technical knowledge. Where technical knowledge is an indispensable requirement the absurdity of selection through a popular election is apparent. Of what value, for example, is the voice of the people in determining the fitness of a man for the post of city engineer, or banking commissioner or the chief of the state insurance department? Yet, in defiance of good sense, offices such as these are in a number of states and cities made elective. Suppose, merely by way of illustration, that in some distant future there should be a general conviction that the government should operate railroads, that such a proposition should be the crux of a political campaign, that the people should vote upon the policy involved, and that the Congress so elected should enact that policy into law. All this would be perfectly in order, but who would think of selecting the general manager of the railroads of the United States by a popular vote?

In all our executive departments we should have permanent undersecretaries who retain their positions with-

out regard to the changes of administrative policies, as dictated by cabinet officers who come and go with the Chief Executive by whom they are appointed. With every change of administration there must inevitably come certain of these changes of policy, few or many, designed to fulfil pledges given by the victorious party. The appointment of all officers of high enough rank to have a hand in shaping these policies must, of necessity, be left to the President, or to the President and Senate in cooperation. It does not follow, however, because the head of a department is a statesman competent to guide a national policy, that he has suddenly mastered the manifold questions of skill, science, routine and method, which it is the labor of an ordinary official's lifetime to understand, and which are essential to the practical application of policies which may be developed. The new official is usually called upon to consider at once questions of the greatest magnitude, and to make wise decisions upon a multitude of details involving considerations of which he is ignorant. How should he be expected to exercise a wise discretion unless he can lean upon the knowledge and judgment of a subordinate or permanent undersecretary?

The retention of experienced subordinates to advise changing departmental secretaries is well exemplified in governmental procedure in Great Britain where, it will be admitted, the tone of public morality is relatively high. In the five great departments—the Treasury, the Foreign Office, the Colonial Office, the War Office, and the Home Office—although the decisions are made by the Cabinet, the permanent undersecretaries carry them out. The Post-Office Department, which is under the control of the Postmaster-General, is practically managed by a permanent non-political secretary. The heads of these departments are expected to carry out the policies of the dominant

party, but in the execution of these policies they have the responsible counsel of undersecretaries, based on ability and long experience. The miscellaneous details of public work, which need to be administered in the same manner, regardless of the party in power, are carried on from year to year, on business principles. The adoption of this English system of permanent undersecretaries to the Federal departments at Washington would seem to be of very great importance from the standpoint of efficient government.

An excellent beginning of this plan was made under Presidents Roosevelt and Taft in the case of Bureau Chiefs in several departments, but notwithstanding the instance of the long and efficient service of Assistant-Secretary Adee of the State Department, who has been retained in office since 1882, and who is perhaps our nearest approximation to a British undersecretary, the policy is not yet securely established. Under the present system every change of administration involving a change of parties still witnesses a complete upheaval in the higher positions and a very considerable removal of those officials who rank above the classified service. The advantage in such cases, of a permanent head in each department to furnish responsible counsel and information to the newly-appointed secretary is unquestionable. Only men of character, energy, adaptability, and a wide knowledge of public affairs should be considered and their selection and tenure of office should, of course, be absolutely unaffected by partisanship considerations.

The line between general executive ability and technical ability is somewhat hard to distinguish. Even under a system of unhampered popular election it is doubtful whether a man who knew nothing about law would be elected prosecuting attorney, or a man who knew nothing

about engineering would be chosen as city engineer; but it is altogether possible that a man who had been a failure in handling men may be elected chief of police, and that a man entirely unfamiliar with transportation problems may be chosen public service commissioner. We have a way of looking at these things in politics more hopefully than we are accustomed to in business, and are apt to hold that you can never tell what a man can do until he has had a chance to try. Now, it is not to be denied that in various administrative positions of the government (and of business, too, for that matter), men without previous experience have often made fine records of achievement, but they have never done so unless they brought to their new positions that intangible something which we call executive ability. The choice of such men by popular election is a happy accident, not the natural result of the system.

Reverting to the oft-expressed wish for business methods in government administration, it is well to remember that another requisite of sound business is the fixing of definite responsibility. Where all the prominent members of a state or city administration are chosen by popular election there is a vague general responsibility to the public, but none to the chief executive, and, therefore, no coordination among the departments. The result is a series of practically independent officials who may perhaps pull together, but are more likely to pull in as many different directions as there are offices. There is neither responsibility nor accountability.

Except as it throws light upon other problems, the matter now under consideration has no application to national affairs, since no large administrative position under the Federal government, apart from that of President and Vice-President, is filled by popular election.

But it has a very distinct bearing upon state and local government where manifold elections are still widely prevalent.

Fortunately, both in state and municipal government the movement is away from the condition of affairs which we have described. The tendency of the times is for the short ballot and the filling of more offices by appointment. This has the advantage of concentrating the attention of the voter upon a few men and measures. The fewer and simpler the questions involved in an election, the more decided will the answers be. This imposes a higher sense of responsibility upon the voter, and increases that of the elected office-holder to the voter. It is this clear definition of authority and responsibility which makes for good business, and will make also for good government.

When only a chief executive is elected, and the power of appointment is vested in him, he is not accountable for his own acts alone, but for the entire administration of which he is the head. This should lead him to the exercise of prudence and discrimination in the choice of his subordinates. On the whole, it appears that in the administration of government the public is better served by appointed than by elected officials. A chief executive is not, of course, infallible in his judgment of men, nor may he always estimate rightly the needs of different offices and the capacity required to fill them. Fish commissioners have been appointed who knew nothing of fishes, and census officials who knew nothing of statistics, but this has been done on the theory that these positions were essentially executive, not technical. In such and other instances the appointing power may exercise poor judgment, yet it is no disparagement of democracy to declare that the executive's judgment is apt to be riper and

better informed than that of the mass of the people. It would, indeed, be a sorry democracy if it were not so. It would mean that the people had chosen as a leader a man whom they did not consider superior to themselves.

Politics, however, may be excluded from administration by the front door of election, only to enter through the back door of patronage and find itself very much at home. When appointments to office are made wholly or chiefly with reference to keeping in power the party that for the time being controls the offices, public welfare suffers as partisan control gains. This shifts the interest in government from the task itself, and its effective accomplishment, to the minor consideration of, who shall do it? Fortunately our standards are rising. We demand and expect a higher grade of service than did our fathers. We are more ready than we were thirty years ago to endorse the statement that a public office is a public trust. We have less understanding of and sympathy with the view which in the language of the street asserts that "a public office is a private snap."

With the development of governmental organization, which our growing population and the closer relationships of life have brought about, we have largely outgrown the "spoils system" in its extreme forms; its very excesses proved its destruction. Now we need not only to kill its manifestations, but to destroy utterly its spirit, and this is another matter; for it cannot be denied that we all have a primitive strain in us which makes us partially sympathize with the old slogan, "To the victor belong the spoils." A reward for victory is not abhorrent to us, but the attitude of mind which considers the public offices as "spoils" (or "loot" as the more modern phrase would have it) cannot be too strongly condemned. Our trouble with the spoils system was that it took itself too literally,

and having designated rewards as "spoils," came to regard them as such. Another objection was that the system failed to live up to its own motto. Instead of distributing the offices to the "victors,"—to political workers who had made victory possible,—it too often gave them to mere hangers-on, or to relatives and friends, who had no part in the victory except thus to claim its fruits. The political worker who had really done things for his party, who had given proofs of efficiency, was in many instances not so bad an office-holder. In innumerable cases he carried into his official work the same practical good sense and genius for organization and effective action that had made him a successful party worker. It was this result, indeed, that made us put up with the unadulterated spoils system as long as we did. We might have it yet, if political rewards had gone only to those who were politically worthy and had not been governed in so many instances by purely personal considerations.

A multiplicity of appointments on the part of the executive is as inimical to good government as a multiplicity of elections. It introduces too strong a temptation to play politics, and the yielding to such temptations is equally harmful to the executive and to the conduct of public business. It is a cardinal principle of business administration that the executive should not be harassed by details. This ought also to be a principle of government. When a half hour's time of the President of the United States is occupied by the question of the retention or dismissal of a $900 clerk in one of the departments, it is a waste of energies that ought to be reserved for larger matters. If the efficiency of the service only were at stake such things could not occur; it is the infusion of the political element alone which makes them possible, and if we had not called for a Civil Service Law for the

protection of the government employee and the protection of the public service, we should have demanded it for the protection of the executive.

But we do need such a law for the protection of the public service. Tenure of office under any other plan depends too often on the diligence with which the employee serves the party, or the extent to which his selection serves supposed party ends, and only in a small measure on the efficiency with which the employee performs the duties for which he is appointed. Selection of the rank and file worker for any other reason than fitness to do his work would in any business enterprise be an absurdity which would lead to bankruptcy. Government does not have to fear the possibility of bankruptcy, and hence it has been slow to make business its model.

Passing from the theoretical to the practical aspects of civil service procedure it will perhaps be of interest to review briefly some of the shortcomings of the system as exemplified in its application to the work of the Federal Government. Although elaborate precautions have been taken to eliminate political favoritism in the selection of civil service employees, no comprehensive and uniform measures have as yet been adopted to maintain the efficiency of these employees after they have entered the service, either by proper advancement of the deserving or by elimination of the unfit. As a natural sequence, the classified service has gradually tended more and more to attract the unambitious and the incapable. Those whose abilities do not warrant an expectation that they will succeed in the field of private business and those who are unfitted by temperament for active exertion, endeavor to obtain an entrance to the civil service, where their success depends in a large measure simply upon avoiding any

flagrant misconduct and attending with moderate regularity to routine duties.

If security of tenure during good behavior, with gradual advancement in rank and salary, is the legitimate reward of the efficient employee, it is equally important from the standpoint of public interest that effective means be provided to remove from the civil service those employees who fail to measure up to a reasonable standard of efficiency. In the retention of inefficient employees critics of the merit system find fresh proof for their arguments.

Consideration of measures for the improvement of the civil service system is given added interest by the recent report of the Congressional Joint Commission on Reclassification of Salaries, which has considered in a constructive way the problems affecting Federal civil service employees. The report of this Commission, which has been printed as a public document,[1] contains a number of excellent recommendations looking to higher standards of efficiency in the classified service. Among the salient facts disclosed by this report are the absence of any definite standards to guide the Government in fixing the pay of its employees, of any satisfactory method for testing efficiency as a basis for salary increases and promotion, and of any uniform practice in the advancement of competent employees in either salary or rank. As to the effect of the lack of uniformity and equity in rates of compensation, the Commission reports that there is serious discontent, accompanied by an excessive turnover and loss, among the best trained and most competent employees, that the morale of the service has become impaired, that the national service has become unattractive to a desirable type of technical employees, and that the

[1] 66th Congress, 2nd Session, Document No. 686.

Government has put itself in the position of wasting funds on the one hand and of doing serious injustice to individuals on the other, and of failing to produce that degree of efficiency in administration which a more equitable and uniform wage policy would bring about.

The fundamental need of the classified service, continues the Commission, is a comprehensive and uniform employment policy administered by a central personnel agency, preferably the Civil Service Commission, to include the standardization of rates of compensation and working conditions, the installation of efficiency rating systems in the various Government establishments and the selection, development and retention of a competent personnel. Each department of the Government service, under this system, would be required to rate all employees according to the prescribed standards of efficiency, and salary increases would be made only on the basis of such ratings. Employees who failed to maintain such standards would be subject to reduction to a lower salary, and those who failed to establish a fair standard would be removed from the service after suitable opportunity to appeal to the personnel agency. Although the efficiency rating systems now in use to a limited extent in certain of the Government departments have not yet fully demonstrated their usefulness, the recommendations of the Commission, on the whole, seem well adapted to bringing about much needed improvements in the civil service system, and if Congressional sanction be given for their adoption they should ultimately result in a much higher standard throughout the classified service.

Of great significance is the recent Act of Congress providing for retirement and pensions for all employees of the Federal Government in the classified service. Under the provisions of this act general employees of the Gov-

ernment are retired from the classified service at the age of seventy and certain special classes become eligible for retirement at ages ranging from sixty-two to sixty-five. Annuities graded according to length of service and basic salary, and ranging from $180 to $720, are to be paid to such superannuated employees from a pension fund created by direct appropriation from the Treasury, and supplemented by contributions from the civil service employees themselves at the rate of two and one-half per cent of their monthly salaries. Only those employees who have served fifteen years in the classified service will receive the benefits of the retirement measure.

Although it is too early to form a definite conclusion as to the effect of this act, it is estimated that it will involve less expense to the Government than the cost under the old system of retaining on the payrolls many thousands of incapacitated employees who render little or no service in return for the salary paid them and thus exercise a demoralizing influence upon the rest of the force. The practical benefits of the measure, therefore, aside from the humanitarian considerations involved, should more than compensate for the cost of its enforcement.

In establishing Civil Service Commissioners, providing for civil service appointments on the basis of fitness, for the undisturbed tenure of position, except through dismissal for cause, and for pension retirement systems, modern governments are adopting the procedure toward which business is everywhere tending. In our larger corporations the Board of Directors concerns itself very little with the details of management. The directors determine business policies,—theirs, in other words, is a legislative function. The executive, whom the directors choose, carries out these policies, often to a considerable extent by delegating authority to department heads. But

as the activities of the rank and file worker have nothing to do with such policies, the supervision over them in modern business is placed in the hands of an employment manager. His functions are exactly those of a Civil Service Commissioner, to establish tests for employment and to care for the interests of the employed by protecting them from unjust or arbitrary action.

One of the chief plans proposed to increase the efficiency of government in the United States is the adoption of the budget system. Practically every popular government in the world, excepting the United States, has already adopted such a system. In Great Britain, France, Germany, Italy, as well as in the English Colonies, the preparation and discussion of the budget forms in ordinary times the central and most important point in Legislatures and Parliaments. The fundamental principle of such a plan is for the Executive Department, acting on the basis of experience, to prepare in great detail the estimates of the national expenditures for the coming year. Such estimates are prepared first by each separate bureau and department and are then brought together into one whole report for further consideration and adjustment, so that all the estimates can be presented as one plan to the legislative body.

On the other hand, plans are made to cover these expenditures by detailed estimates regarding the revenues that may be expected to accrue from the different sources until they amount to a total at least equal to the estimate of expenditures. The entire scheme covering proposed expenditures and estimated revenues is presented together as a unified plan for the consideration of the legislative body.

In Great Britain such a plan is presented by the Chancellor of the Exchequer and the discussion of it occurs

in Committee of the Whole and is carried out in the greatest detail. In Germany and in France, the budget is presented likewise by the Minister of Finance. It is first referred to a large committee, usually considered the most important of all the committees, and after full deliberation by such committee is reported to the House for further discussion and action. It will be noted that in all these countries, the budget has to be presented as a whole and that measures are taken to have the fullest consideration given so that amendments may be made in detail and the public treasury in every way protected.

In the United States we have had no budget system and there is no provision for unified action. All measures providing for the raising of revenue must first be introduced into the House of Representatives, but any plan either for raising revenue or making an appropriation may be proposed by any member of Congress. In the House of Representatives measures providing for the raising of revenue would all be referred to the Ways and Means Committee for consideration and a report to Congress. Measures asking for appropriations of the expenditure of money, however, would be referred to any one of ten or a dozen committees, each of which makes recommendations for appropriations. Aside from the general Appropriations Committee, there are other committees representing different branches or departments of the government. Bills carrying appropriations are then referred to the committee which has charge of the special subject covered by the bill. It will then be seen that there is no arrangement by which all expenditures are considered by any one committee.

To secure, however, a real budget system it is essential that all suggestions for appropriations as well as all sug-

gestions for raising revenue should be referred to one and the same committee.[1]

Two or three different plans, however, providing for unified recommendations as regards appropriations and revenues have been proposed and are now under consideration by Congress. The essential thing is that the entire management of both expenditures and revenues be considered by a single body, so that there will be unitary action.

It is no accident that every move for better government in recent years has been along lines approved by the experience and practice of business. Though it lacks the element of profit which is the spur to efficiency in business, the operations of government, once its policies are decided and have received form in law, are exactly parallel to those of business. It is in the application of business principles rightly understood to public affairs that the road to better government in the future lies.

[1] On December 6, 1920, in both the House and the Senate, committees on appropriation were formed to which all appropriation bills must be referred, thereby making an arrangement by which all expenditures may be considered by a single committee in each house. This no doubt is the entering wedge for a unified budget bill, which will probably be passed by Congress at this or the next session.

II

PROBLEMS OF LABOR

VI

LABOR, CAPITAL, AND THE COMMUNITY

To secure the greatest social good from the interaction of labor, capital, and the community, the American standard of living must first be preserved and then improved. This standard now depends and always will depend upon keeping up the American level of real wages, and this means that ways must be found to keep the costs of production in competitive fields, whether foreign or domestic, low enough to meet business rivalry without lowering this level. Before taking up the national aspect of the relations between labor and capital, we should consider an international aspect—the proportion which our export trade may safely bear to our total trade, internal and external. It is, of course, impossible to express this proportion in exact figures, but the considerations upon which the ratio can be roughly estimated are sufficiently obvious.

The principal advantages of an export trade in American manufactures are that it increases the volume of production and, therefore, tends to lower the cost (an advantage in which the home consumer shares); and that it stabilizes industry by furnishing a safety valve through which, when a temporary depression in the home market reduces the home consumption of American commodities, over-production can escape. Certain enthusiasts urge us to devote our utmost efforts to building up an immense export trade. They paint in glowing colors the

vast opportunities opened to the American exporter by the disorganization of the European export trade during the war. But they overlook the fact that an export trade in American manufactures, expanded without any regard to considerations other than the increase of that trade, involves serious dangers. American exports must compete abroad with the products of cheap labor. If we increase their volume beyond the point at which they represent chiefly the sale of a marginal surplus, our manufacturers will be under great pressure to lower the cost of production, in order to meet that of foreign countries, and this process may well involve lowering the wage standard of American labor.

As a broad principle our export trade should not be increased without reference to the rate of increase in our domestic trade. Just so far as we improve the standard of living in the United States, just so far shall we develop home consumption for American manufactures. To that point at least can we beneficially extend our export trade. The reason is simple: under such conditions, our exports would increase, and at the same time their volume in relation to that of our internal trade would remain much the same; in short, their true character as an outlet for our surplus production would be preserved. The maintenance of this balance between our external and our internal trade would be facilitated by an improvement in the quality as well as by an increase in the quantity of goods which we make for home consumption. At the present time we import a vast amount of goods manufactured abroad from raw material with which the United States is amply supplied, and with which, in some instances, the United States furnishes the foreign manufacturer. The country would secure definite and important gain if, instead of exporting raw material and importing

it again after manufacture, we even imported the necessary skilled labor and did the manufacturing ourselves. We should thus pay out within our own country instead of sending abroad the wages which represent the cost of turning raw material into finished products. To illustrate: American cotton yarns are exported to England and imported as cotton cloth after the English cotton operative has been paid for its manufacture. The situation is similar in every case in which we import high grade goods manufactured from the raw material found in this country. If the United States were properly equipped, it could work up its own commodities, and thus furnish high wages to American workers, stimulate the use of our own natural resources, and increase the volume of our domestic trade. Each of these factors would contribute to the wealth of the country, and would tend, therefore, to advance the general standard of living. The higher we carried the home manufacture of expensive commodities calling for skilled labor the more powerful would become this influence.

Turning now to the strictly national aspects of the relationship between labor, capital and the community, and always bearing in mind that our chief concern must be the American standard of living, we find that the general question resolves itself into two sets of elements:

1. Those in which labor and capital, from their own needs and from the effects of such various forces as immigration, unionism, and public opinion express their mutual relationship in terms of wages and working conditions.

2. Those in which the interest of the community transcends that of either labor or capital. Of these elements the most important are that our orderly social and economic life shall not be violently disturbed by strikes, lockouts, and boycotts; that the health of the worker

shall be safeguarded and that his standard of living shall be established at a high point; that by some means, private or public, he shall be protected as far as possible from unemployment due to sickness or old age, and from the consequences of accidents occurring in the course of his employment.

The actual relations between labor and capital are the product of two forces, simple in themselves, but infinitely complex in their relation to each other. One is the demand of the worker to receive a wage adequate to maintain such a standard of living that his health will be conserved, that he can raise and properly care for a family, and that he obtain sufficient leisure to live as a social being. The other is the demand of capital that it, too, shall receive a living wage; that is to say, an income large enough to pay interest to its owners and to protect itself against extermination.

Demagogues and agitators reiterate unceasingly that there is a fundamental antagonism between the interests of capital and the interests of labor, and they find many followers among minds too inert to think out conclusions for themselves. Fashionable faddists lend to such views the support of a supposed social prestige, and in this are often abetted by would-be social philosophers who mistake vacuity of thought for depth of feeling. If one can have little patience with these disciples of negation, neither can he be satisfied with the opposite view which smugly asserts that the interests of capital and labor are always identical. To hold that at all times and in all circumstances these interests are in harmony is either to ignore the signs of conflict visible on every side, or else to believe that both contestants are wholly wrong, blinded by passion and prejudice, incapable of seeing where their interests lie and of pursuing them intelligently.

The gist of the whole matter is that the antagonism of interests is a temporary phase, due to disagreement over the division of the joint product; harmony of interests is the permanent condition of joint advantage with a large product to divide. Capital and labor seek their satisfaction from their joint product. At any given time the natural desire of each is obviously to get for itself as large a share as it can. This is not a mere passing distribution of a given quantity of goods; it is a continuous process in our economic life. Capital and labor gain whenever the joint product is increased, and lose whenever it is diminished. The public, too, benefits by increased production with its tendency to decrease prices; increase of the product depends on the constant application of more capital and more labor. In other words, capital and labor are partners working to the common end of large production with the least possible expenditure of energy. Like partners in business they may have differences of opinion, but they must work together if they are to attain success. Obviously, too, inordinate greed of the one or the other will break up the partnership and destroy the source whence both draw their livelihood. In short, the demands of capital and labor are perfectly reciprocal, the satisfaction of either depending ultimately upon the satisfaction of the other.

It is not proposed here to go into the innumerable details subsidiary to the broad issues which arise in the constant interaction of these demands, nor is it probable that any useful purpose will be served by discussing the proposal, of which a good deal is heard in these days, that private capital should be abolished and that industry should be controlled and managed by labor. Such suggestions come almost entirely from persons none of whom is in a position to form a practical judgment—those who

have no capital, those who have no experience in industry, and those who have neither.

The legitimate demands of labor and of capital merge with certain legitimate demands of the community transcending the interest of any particular class, and can be met only by applying to the settlement of every controversy which arises between employers and employees the principles of equity. The community is vitally concerned, on the one hand, that the health of its workers shall be safeguarded, that their standard of living shall be brought to a high level, and that they shall be protected from a continuous loss of income, whether due to unemployment, accident, sickness or old age. It is equally vital to the community, on the other hand, that its orderly social and economic life shall not be violently disturbed by strikes and lockouts. These conditions can never be realized till public opinion recognizes that there are reasonable demands of labor and reasonable demands of capital, and that a fair adjustment of these demands is the true foundation of a modern industrial society. The older system under which the community took no cognizance of the relations between labor and capital until public order was violated is gradually giving way to the active principle that prevention is better than cure. The application of this principle must, however, be greatly extended if industrial peace and the American standard of living are to be preserved. The community must be prepared to pay the price of making itself prosperous and healthy, and labor and capital must accept toward the community which furnishes each with its subsistence a definite responsibility. This means that the community must protect itself from exploitation by labor and by capital alike. At the same time and as a matter of justice there should be no attempt on the part of the community to exploit

either labor or capital in order to secure undue benefits by decreased cost of service.

One of the questions of the day is whether the good of the community is likely to be best served by the modification and improvement of our present social system or by abolishing altogether the labor-capital plan and setting up an Industrial State as the servant of the Political State. The nearest approach to such a solution made in modern times is in Germany. It is true that as an industrial device the plan in many respects benefited the German people, though the benefits have often been greatly overestimated. Its political consequences have been disastrous. If these results have followed in a country with a higher educational standard than our own, and with a much more homogeneous population, there seems to be little doubt that the gravest troubles are to be expected if we try to find a similar way out of our own industrial difficulties. It is desirable to approach the problem, therefore, with the purpose of improving our present system, based as it is upon individual freedom of action. Surveying broadly the disputes which arise between labor and capital, the economic loss which they occasion, and the inconvenience and danger to which they subject the community, we can see an underlying cause for the defective working of our industrial society. We have become so accustomed to regard individual freedom as the cornerstone of our institutions that we have insisted on carrying it over into a field where the objects to be attained are not in reality individual but social in character, and can be reached not by separate but by combined action. The whole modern labor union movement is founded on recognition of this fact. This is at once the reason why labor leaders support and why certain reactionary capitalists oppose the principle of collec-

tive bargaining. The demand for the adoption of both this principle and its practice is now so urgent, and the conviction of its justice is so profound and so widespread, that those who resist it no longer represent a doubtful cause but merely a foolish prejudice. But if all labor leaders and most capitalists are agreed that the controversies in which they find themselves engaged from time to time are individual only as to time, place and occasion, and that they are social as to the issues involved, the method of possible settlement, and the equity upon which they are to be decided, neither labor nor capital has yet fully committed itself to the view that the community, in which they represent but two interests, has a preponderating concern in their decisions. There is, indeed, a tacit acknowledgment of this concern in the appeals which both capital and labor hasten to make, when matters between them have brought to the direct issue of a strike or a lockout, to that force which up to this point has been a stranger to the proceedings, public opinion.

It is of less importance to develop arguments of which an overwhelming abundance is on record than it is to state conclusions reached by men of practical experience after a close association for many years with both capital and labor. The testimony of these men based on first-hand acquaintance with the problems of labor and capital leads to the conviction that the heart of the matter is the maintenance of the American standard of living and the securing of a fuller and clearer understanding by both parties of each other and of the principles involved. That labor is vitally interested in this endeavor needs neither assertion nor demonstration. That the welfare of the community requires it should be equally obvious. There appears also to be no room for doubt that the best interests of capital also lie in the same direction.

VII

THE STANDARD OF LIVING

THE community as a whole is vitally interested in the maintenance and improvement of the standard of living. It might well puzzle a man to define the "standard of living;" yet it is not an abstraction. It is the sum of a large number of concrete things; it expresses the total of available comforts and luxuries which a man enjoys; it brings to mind the place in which he dwells, the clothes he wears, and the food he eats; it goes further and includes some aspects of the social life open to him, the schooling of his children, his church, his lodge and his amusements. It is possible neither to compress the term into one sentence nor to tell all that it might possibly include in several pages.

We are accustomed to rank the American standard high as compared with that of other countries. We know that the great mass of the population here have better homes, better clothes, and better food than the people abroad; that all share equally in such advantages has never been the case, and probably never will be. But the hope of progress lies in the forward and upward movement of the individual and through him the mass. The desire for a higher standard is normal, and if it is, as we all believe, commendable in the individual, it is equally so for the community which is the sum of the individuals composing it. But a higher standard cannot be reached by the individual unless he works for it. Greater enjoyments and

more refined pleasures can only be attained by increased productivity. The striving for a richer and more varied life plus a strong determination to earn it is the mainspring of economic progress. Vain longings for better things accomplish nothing, and when men have such longings, without the opportunity of realizing them, the situation becomes dangerous. The dull man lapses into a passive state which impairs his economic efficiency; the man of more active temperament joins the forces of revolt, and hopes for personal gain through upsetting the established order of society. In other words, with men of strong character and moral integrity the desire for betterment is an impulse leading to their own and the world's improvement; with weak men whose moral foundations are shaky it may be a torch leading to violence.

Thus far the history of American industrialism has been constructive. Increased productivity, outstripping in its forward movement the growth of the population, has permitted a remarkable improvement in the general standard of living. There is practically no phase of our daily life in which the standard is not very much higher than it was twenty years ago. Houses are better built, more amply furnished, better supplied with heat, light, water, and sanitary conveniences. Access is had to them by better streets, better roads; and in the suburbs as well as in the city surface cars, subways, and elevated railroads have multiplied. Through the enormous increase in the number of automobiles owned by persons of moderate means the area of friendly intercourse has been greatly extended, and this has led to a much wider enjoyment of social pleasures.

If we turn to items of food and clothing we find that the improvement has fully kept pace with that in housing and transportation. Food is not only of better quality

and of greater variety than formerly, but in order that it may be wholesome, a larger proportion of it is subject to government inspection and to various laws requiring purity. Clothing with which the average man would formerly have been content is now cast aside as soon as it begins to show signs of wear. As far as women are concerned, the sway of fashion which formerly ceased to operate as the scale of income fell, now appears to be equally powerful throughout every social class until actual, even abject, poverty is reached. The sensitiveness about dress has developed to its present extreme largely because of the increased social intercourse. All these things have been fostered by the general spread of education, and this factor has added a new item of expenditure to every household in the form of daily papers and illustrated magazines, whose advertisements embody the most artful means of inducing people to spend more money.

When we contrast the American method of living with that of foreign countries we notice that the American has more rarely numbered among his pleasures the joy of accumulation. Usually he is a generous spender and a negligent saver. His prosperity rests chiefly upon activity, and not upon frugality. The result of this trait is that his expenditure is less elastic. Unaccustomed to restrict expenditures for the purpose of saving capital, he finds that when restriction becomes a necessity it is extremely irksome. When the thrifty and saving person is confronted with diminished income, he has the choice of decreasing his outgo or restricting his savings; and if he goes without meat in order that he may make his payment into the savings bank, he has at least the satisfaction of knowing that his privation is self-imposed.

The economic conditions resulting from the war leave

no question as to the necessity for conservation and thrift, not only in this country but in the entire world. The diversion of great groups of industry to the manufacture of munitions of war, the loss of production in the devastated regions of Europe, and the total destruction not only of enormous quantities of goods, but also of the means of producing goods during the war, have combined to bring about an acute shortage in the world's supply of commodities. Less is available for the use of each individual than formerly and, willingly or not, some will be deprived of accustomed luxuries and even necessities. Yet good results may come, for it is possible that many of the things now regarded as essential to the well-being of the average American may prove needless luxuries. Of course, after a man has accustomed himself to a certain scale of expenditure, retrenchment is irksome. It is idle to tell him that he is better off than his father was, or than he was himself ten or more years ago; the luxuries of one generation, or even of one period of a man's life, become the necessities of another.

Nevertheless, the habit of thrift has been cultivated all too little in America. If the people throughout the world would resolutely begin to economize, not in necessities, but in expenditures for luxuries, just so much sooner would the balance between production and consumption be restored. The exercise of prudence in spending would thus tend to become a habit and prosperity would be more far-reaching than before. In almost every activity of daily life there is opportunity to save. In the purchase of personal comforts and even of necessities, in the care and maintenance of clothing, in the choice and preparation of food, in the selection of amusements for education and culture, and in innumerable other ways practical economy may be exercised without lowering the accus-

tomed living standards,—often, indeed, to their improvement. The most nourishing food as well as the most enjoyable is often the least expensive. The best books are not the most expensive.

The requirement of economic progress for the individual and for the nation is that the standard of living be maintained and that it be improved. Deterioration for the individual is misfortune, but when it extends to whole classes of the population it is a great economic evil. Expenditure disproportionate to income brings about widespread discontent. Any sudden change in the relations of the different economic groups in the community to one another tends to inure to the advantage of some and to the disadvantage of others. It is a trait of human nature that it accepts benefits as something due and says little, while it regards anything to its disadvantage as an injury and clamors loudly. In the current discussion of the high cost of living, we hear little from the groups whose income has swollen far beyond their accustomed expenditure, and much from those whose normal expenditure has outstripped income. As a result, there is a general belief that the entire population is in the same boat.

Anything that disturbs the accustomed standard of living is, then, a potent cause of unrest. Of such causes, none is more powerful than changes in the level of prices. Prices cannot markedly fall or rise without affecting the living conditions of those whose money incomes remain stationary or fail to rise as rapidly as prices.

The people who have thus been most seriously affected by the abnormal rise in prices since the opening of the war compose what may be termed the middle class in the economic scale; and especially among them are those who, before the war, had only sufficient income to afford a narrow margin above actual expenditures for the things

which, in their particular environment, constitute the absolute necessities of existence. This class is composed largely of salaried teachers, preachers, and clerks, and those dependent on small income from invested capital, often widows and persons with slender inherited means. The incomes of these people have, to a large extent, remained stationary. The inevitable result has been a lowering of their standards of living during the period of rising prices. Although they work as hard and their desires are as moderate as previously, they have been gradually losing ground in the struggle to maintain their former mode of living. A certain standard of dress is requisite to their positions. The housing shortage throughout the country precludes the possibility of obtaining cheaper rent. They can only curtail their amusements and economize in the very essential of existence, food. Their situation is the harder to endure because those just above them in the economic scale of income, the merchants and tradesmen, and those formerly below, the mechanics and laborers, enjoy unprecedented prosperity. To this situation is added a feeling of utter helplessness since the middle class has no organization, or at least none of sufficient strength effectively to act in such a crisis. This is not to say that a considerable proportion of the wage-earning class is not to-day inadequately paid, but for the most part, labor, especially when organized, has received advance in compensation more clearly commensurate with increased living costs. The grievance of the working men, as compared with the average salaried employee, is more or less imaginary. The discontent of the former is in great measure due to the fact that, although his money income has increased, he feels himself defrauded of the increase because a large part of it is absorbed by high prices.

A survey made in 1919 of the annual earnings in a number of different classifications of service reveals the gravity of the situation of the average salaried employee. The compensation of a large number of college professors was shown to be $1300 and less, and the average salary of high school teachers in cities of 100,000 and over between $1200 and $1400. In this same salary group are found many government employees, salaried officials in the smaller municipalities, railroad clerks and the less fortunate office employees. In the corresponding wage group are found some of the lower paid day workers in the iron and steel, coal mining and manufacturing industries and the building trades. In other words, from the standpoint of earning capacity, these professors, teachers, school principals and others are now on a level with loaders, oilers, car runners, trackmen and others in the coal mines, the lower paid operatives in the textile industry, and freight handlers.

Many skilled workers are receiving wages far above this level. Marine captains and engineers earn between $3000 and $4000 a year. Rollers and pourers in the steel mills and superintendents and managers in several of the manufacturing industries are also in this class. Train dispatchers and passenger engineers, as well as a number of craftsmen in the steel industry, average between $2500 and $3000 annually,—more than many university professors now receive. The medium salary of professors in colleges listed by the Carnegie Foundation is $2000. The yearly earnings of boiler-makers in railway work average $2059. A number of other steel workers receive between $1800 and $2000, as do railroad passenger firemen, machinists, motormen and engineers in the anthracite coal mines, and tinsmiths and sheet metal workers. Since 1914 practically all these wage-earners have received

increases of from 75 to 150 per cent. The compensation of the salaried class has meanwhile in many cases practically remained stationary. From the standpoint of income, the relative positions of the two classes have been reversed.

In a lower group, with annual earnings from $1000 to $1200, the elementary school teachers of the National Capital and certain government clerical employees are found on a financial level with railroad section men, street railway conductors and motormen, coal mine laborers and members of other unskilled occupations. The average yearly wage of the 100,000 packing house employees included in this group is $1163. Even lower still is the stipend of the teacher in elementary schools in the cities, the average being between $800 and $1000, on the same level as the annual wage of the common laborers in the building trades and saleswomen in department stores. Still farther down the scale, on a parity with office boys, messengers, janitors, charwomen and the like, are the clergymen and school-teachers in villages and rural communities, with incomes below $800 a year.

The inadequacy of these incomes in the light of the present day prices is apparent. Recent estimates by well-known economists place the amount necessary for the maintenance of the average family in health and reasonable comfort at from $1700 to $2500 a year. The Federal Department of Labor stated that in April, 1920, the cost of living was practically double what it was in 1914. No doubt a considerable proportion of the great body of wage-earners is still below a proper living standard; a majority of these were underpaid before the war and their increases have only served to keep them on the same plane as before. Many others, however, have realized advances in rates of pay which more than compensate

for the higher cost of living. Figures recently published concerning the earnings of more than half a million employees engaged in various industries indicate that the average wage of industrial workers for 1920 will be approximately $1450. This, of course, means that many will earn less than this amount and that a considerable number will receive more. In 1915 the average earnings of these same workers was only $595; their wages, therefore, have increased nearly 150 per cent, so that they are in reality better off than before the war. The salaried employees, on the other hand, have received relatively small advances—often none at all—and prices have cut their earnings in half. There is every evidence that high prices have brought unusual prosperity to business managers as well as to the small shopkeepers of the country; but while some good is mixed with the evil, no one can doubt that the world would be happier and better off if we could maintain a certain degree of stability in the prices of the articles in most common use.

The difficulty which we are here considering can be made clear if we bear in mind the difference between the money wage and a wage as described in purchasing power; in short, the difference between nominal and real wages. It is clear that if at one time a four-dollar-a-day man can feed, clothe, and house himself for three dollars a day, and at a later time the same food, clothes, and house cost him four dollars a day, his actual wage has fallen, although its description in terms of dollars has remained the same; he is in fact no longer a four-dollar-a-day man. So long, therefore, as the purchasing power of the dollar constantly varies it is impossible to express a real wage in dollars, for if a nominal wage remains stationary after the purchasing power of the dollar has fallen ten per cent, the effect is practically the same as if the wage had been

cut by ten per cent. Similarly an advance of ten per cent in nominal wages leaves the real wages the same as if the cost of living had gone up ten per cent.

The difficulty here disclosed can only be solved by expressing wages in real instead of nominal terms. It is impracticable, of course, to hire men on the basis of so much food, so much clothing, so much housing, and so on; the only alternative then is to make the value of the wages dependent upon their purchasing power instead of upon the number of dollars and cents received. Various devices have been suggested to meet this need. Some attempt to adjust the money wages to fluctuations in prices; others attempt to prevent price fluctuations by stabilizing the purchasing power of the monetary unit.

Considering the latter type of remedy first, we find that different nations have tried to affect the value of the monetary unit, by increasing the amount of alloy in a standard coin, thus for a time being lowering its metal value. Usually this process has been undertaken by a government for the purpose of increasing revenue without intending to alter prices. Yet, when the change has been a substantial one, prices have invariably been influenced. In other instances, however, as in the case of the greatly increased price of silver compared with that of gold, the change has been made, in the Phillipine Islands for example, and in Japan, for the purpose of maintaining the silver coin itself more nearly at its best parity with gold, and has been thus a genuine effort toward maintaining stability in coin value. But no effort has ever been made to stabilize the purchasing power of the coins during short periods so as to affect immediately the cost of living. The enormous expansion of currency and credits during the war period has led to several proposals to bring about this result. Most noteworthy is a plan

proposed by Professor Irving Fisher of Yale University, who would, in the first instance, establish a standard of measurement of the changes in the prices of commodities, more particularly of those commodities that enter into the normal cost of living among the great masses of the population. He would adopt the well-known device of recorded index numbers by which weekly or monthly fluctuations in the average prices of large numbers of commodities can be determined with reference to a fixed standard of prices agreed upon. He would, in the second place, establish the purchasing power of the dollar in relation to the fluctuations of average prices by increasing or lessening the amount of gold that is reckoned by the government and in consequence by the entire population as constituting a dollar.

This proposal has met with the approval of large numbers of economists and public men. For our purposes, however, it is perhaps sufficient to say that there is as yet no indication that either the United States Government or the government of any of the important commercial countries will adopt such a plan in time to meet the immediate and urgent needs of our business community. Regardless of the merit of the plan, this fact places it beyond the range of serious discussion for immediate practical purposes.

Very great evils to the community would be avoided if we could secure a monetary unit that would not fluctuate materially in purchasing power. The principle of bimetallism has been frequently suggested as a means of lessening these fluctuations. For many decades economists have agreed that if it were practicable we should have a multiple standard of value, such as would be secured if a monetary unit were based upon an index number covering main articles of commerce. No way,

however, has yet been found to make such a proposal workable.

Leaving aside, then, for the present, plans to adjust the monetary unit so as to correct the evils of fluctuation, there remains the possibility of adjusting the amount of money paid as wages to the fluctuating purchasing power of money. Since the outbreak of the World War certain large employers of labor have attempted to secure this result in accordance with the following plan: A regular wage, usually the one actually obtaining in an establishment at the introduction of the plan, has been accepted as the standard; and the average prices of commodities at that date, as indicated by one of the generally accepted index numbers, has been agreed upon as a normal standard of prices. Thereafter at stated intervals, monthly or quarterly, the wages are adjusted by adding to or deducting from the standard wage an amount equal in percentage to the increase or decrease of the index number as compared with that of the standard cost of living. This plan seems eminently practicable. There are several well-known index numbers, any one of which could be accepted or adjusted to meet the specific needs of any establishment or any country. For example, in a cold climate, the item of clothing and fuel might well be given a greater weight than in a tropical climate. Reasonable men representing both employing and employed classes might well agree on index numbers to meet specific needs. The plan has much merit in times of great price fluctuation; its use should be widely extended.

The standard of living should not only be stable; it should be adequate. We know that our American standard is high; but we should not let ourselves be deceived by averages or fail to consider the individual because our eyes are fixed on the mass. The poet Hood satirized this

failing of human nature when he remarked that the researches of the statisticians had brought out the interesting fact that the "laboring men wore a pair and a quarter of breeches." We are not concerned here with the idea that the average standard of living should be adequate for the average man; abstractions have no charm for us. Our contention is that the actual standard should be adequate for each and every man in the country. Differences in the scale of living must always exist, but it is a fundamental American doctrine that the humblest should not be deprived of a chance. It is this consideration which gives so much force to the arguments in favor of a minimum wage, or, as some prefer to argue, a living wage.

The advocates of a living-wage law seek to apply the principle that every industry should be forced to bear the cost of supporting its workers well. This principle might with justice be reframed to express the rule that the community, in its capacity as consumer, must be compelled to bear the cost of forcing industry to support its workers, since increases in cost are usually distributed throughout the community by increases in the commodity prices.

The fact is, of course, that at any moment the community does support all those who compose it. The real issues center round the circumstance that some are supported in luxury, many in comfort, and some in distress, and that the problem of dealing with those in distress involves social considerations to which the community cannot with safety remain indifferent.

That any considerable number of people should be living in a condition just above that of starvation, whether the causes lie in themselves or in others, is a menace to social stability. At present the situation is

relieved to some extent by public and private charity; but charity is a very inadequate and unsatisfactory palliation of a state of affairs calling for a radical cure. In making bargains with their employers workmen frequently and properly make the living wage the basis of their demands for those receiving the lowest wage, provided, of course, they are self-supporting workmen. Voluntary bargaining has not always proved successful. In consequence, within recent years the attempt has been made in the United States, following similar efforts elsewhere, to meet the difficulty through the enactment of minimum wage legislation. Massachusetts led the way in 1912, and her example has been followed by ten other states. The experience under these laws has been too limited to furnish sufficient evidence which justifies a final opinion as to their effect, but such evidence as is available appears to indicate that on the whole the results have been favorable; that is to say, in some of the industries in which the plan has been tried, ruinously low wages have practically disappeared, industry has not been called upon to bear an unreasonable burden, and the minimum wage has shown little tendency to become a maximum, as was feared by some labor leaders. Such laws vary in form. The best laws leave to an impartial commission the task of adjusting the wage to the conditions which exist in the locality of the industry concerned. But we need more experience under normal conditions to justify a positive judgment.

VIII

LABOR DISPUTES

THE interruptions of normal economic relations by strikes and lockouts are so loudly and widely heralded in these days of newspaper headlines, that they assume an undue prominence in the public eye. It has already been noted that capital and labor find it difficult to work in harness without some friction—friction which at times breaks out in conflict. Such breaches of the peace, however, must be regarded as extreme cases, and it is false to consider these strained conditions an evidence of irreconcilable discord. If, as it is often stated, this situation is inevitable, it is so only in the sense that sickness and disease are inevitable for the human body. Both in the human and the economic organism, however, though disease is for the time being an evil, its after effects are often beneficial.

Strikes and lockouts are only an extreme form of the constant striving of capital and labor to safeguard their interests, real or supposed. On the part of labor that interest is, as we have seen, to maintain or improve the standard of living. Every strike has this end in view. It may not appear directly as the subject of controversy, but directly or indirectly it is behind all such conflicts. If the maintenance of the American standard of living is essential to national well-being, if its improvement is the only sure test of social progress, measures designed to promote this end cannot be wholly disapproved. But

with all proper sympathy for strikers, we cannot close our eyes to the fact that in the economic struggle the strike is a costly and blundering weapon. We stand aghast at the suffering it entails and the losses which it involves. Even in the most justifiable cases the strikers pay an unduly heavy price for their gains, while often their efforts are a dead loss to them. In every instance industry suffers, and the national assets out of which capital and labor alike must receive their compensation are diminished. Strikes are an evil. But unless society can devise a means by which labor and capital can adjust their differences amicably, strikes must be regarded as a necessary evil. The fact that society has not as yet brought forward means of effectually preventing them or of reducing them to the narrowest limits, need not be accepted as proof that it cannot do so.

In view of the immense importance of every fact bearing upon the conditions of labor it is noteworthy that there are no complete statistics showing for the past decade the number of strikes and lockouts in the United States, the number of persons involved, the method of settlement, and so far as can be known the economic loss incurred. The Bureau of Labor Statistics of the Federal Department of Labor does, indeed, publish an annual review of strikes and lockouts; but in these reviews attention is officially directed to "the incompleteness of the figures" and to "the indefinite character of the information available." Little value attaches to an extended analysis of these figures, but a few salient facts may be brought out. In 1861 it is reported that there occurred in the United States 471 strikes involving 129,000 employees; in 1891 there were 1,717 strikes involving 505,065 employees; in 1916, there were 3,157 strikes involving 1,546,428 employees. These figures, compiled

after thorough investigation by trained field agents, are probably very close to the truth.

As to the economic loss from strikes, in the absence of more complete data it is of interest to refer briefly to figures cited before a convention of manufacturers in New York City in May, 1920, by a speaker who had apparently made a careful study of this phase of the industrial situation. According to this authority, the loss to labor in wages from strikes in 1919 was nearly $725,000,000, while the cost to industry was more than $1,250,000,000. The direct injury to labor, therefore, was more than one-half as much as the injury to the employer. Although there is no possibility of reckoning the total cost in all its terms, the fact that approximately $2,000,000,000 was lost by labor and capital alone from strikes in one year indicates that the strike is probably the most costly means which could be employed for the settlement of industrial disputes.

In spite of the enormous losses involved, and notwithstanding all that has been done in the past twenty years in the development of industrial conciliation, strikes have not decreased either in number or in magnitude. It is true that hundreds, possibly thousands, of strikes have been averted by such agencies as the Federal, State and Municipal governments, by the National Civic Federation, by the American Federation of Labor, and other bodies; but the strike is still with us, and the practical issue is to find a way to reduce the number of strikes, to cut short their duration, and to limit the economic loss which they occasion.

It appeared to many people for some time that a simple solution of the whole matter was to make strikes illegal and to set up courts of arbitration whose decisions would have the effect of law. The experience of Aus-

tralia and New Zealand, countries of small and homogeneous populations, however, has shown that such methods fail to prevent strikes and lockouts. The plain fact is that compulsory arbitration does not compel, and that it is impracticable to enforce the prescribed penalties. You cannot compel men to work efficiently, nor can you imprison 10,000 men for refusing to work. The principle has been rejected, after long and careful consideration, by both Germany and England; and it finds few supporters in the United States. For the prevention or termination of strikes, lockouts, and boycotts, we come, then, to four agencies which have been widely and successfully employed: mediation, investigation, voluntary arbitration, and some form of cooperation between employer and workmen. The first seeks to achieve its aim through conferences arranged by an intermediary; the second, through an appeal to the power of public opinion by publishing the results of an impartial inquiry into points at issue; the third, through securing an agreement, not enforceable by law, that the parties will abide by a decision of arbitrators; the fourth is a preventive measure which attempts to harmonize the interests of both parties.

The application of these principles is a matter of technical detail into which we cannot here enter. Quite irrespective of the perfection of the machinery set up, success will always hinge upon certain cardinal factors which lie outside the mere mechanics of procedure. In mediation the issue will be determined more by the character and reputation of the mediator than by any close familiarity on his part with the industry affected. Intelligence, impartiality, tact, and good temper are the qualities most useful in bringing extreme views to a middle ground of compromise; and it is as important

that the mediator should be known to possess these qualities as it is that he should actually possess them. He must be chosen, therefore, with due regard to these considerations, since his task is to exert an influence and not to apply a code of law or a set of rules. When mediation has failed and investigation has been determined upon, the question of character and reputation is no less important, but more is demanded of the investigators. Since the question is no longer one of bringing an influence to bear upon the parties but of drawing up a concise and accurate summary of the facts, the aid of technical knowledge must be enlisted. This means in practice that the inquiry cannot be conducted by a single investigator, and that the work must be undertaken by a board on which each party to the dispute is represented. As neither party can be expected to be wholly impartial where its own cause is at stake, the board must include a member, or members, whose known qualities guarantee an intelligent and unbiased judgment. Such a board, provided it is legally empowered to call witnesses, to examine them under oath, and to requisition records, should have no difficulty in preparing a statement which will place the public in possession of the facts involved in any dispute. Experience has shown that it is very unusual for a strike or a lockout to be maintained in face of an adverse public sentiment based upon a knowledge of facts showing that one side is clearly in the wrong.

But many labor disputes involve issues of interpretation as well as of fact; others are of such a nature that a simple conviction of right or wrong cannot be reached. It is these cases that present the greatest difficulties and threaten the most serious consequences. After mediation and investigation have failed to effect a settlement, resort may be had to arbitration; and because this is

the last resort, it is of vital importance that there should be a clear understanding of the conditions under which the chances of failure can be reduced to a minimum. Arbitration differs in an essential particular from all the measures which may be presumed to have preceded it, since it is here, for the first time, that a judgment is to be pronounced upon the matters in dispute. Even though the arbitrator's judgment is not enforceable by law, it can, if proper precautions be taken, be made practically enforceable by public opinion. But if this power is to be successfully invoked the utmost care must be taken that the judgment shall command public confidence and respect.

Opinions differ widely as to the best method of arbitration. Under the Newlands Act (1913), which applies only to employees in the railroad train service, controversies may be submitted to a board of arbitration composed, by agreement between the parties, either of three or six members. In either case, each party to the controversy is represented on the board by persons chosen by itself. Under the Transportation Act (1920), Railroad Boards of Labor Adjustments may be established by agreement between the parties to the controversy for the settlement of railroad labor disputes involving only grievances, rules, or working conditions. As a further means of settling such disputes the Transportation Act provides for the establishment of a Board known as the Railroad Labor Board, the members of which are appointed by the President by and with the advice and consent of the Senate. This Board is composed of nine members, three representing employees, three representing the carriers and three representing the public. It is empowered to pass upon and settle controversies in respect to which no decision has been reached by the Ad-

justment Board within a reasonable time and also to decide disputes with respect to wages or salaries not decided by conference between carriers and their employees or subordinate officials. In addition the Labor Board may upon its own motion, within ten days after a decision has been reached between a carrier and its employees or subordinate officials, suspend the operation of its decision if it necessitates such an increase in wages or salaries as will be likely to involve a substantial readjustment of the rates of pay of any carrier, and it may affirm or modify such suspended decision. Decisions of the Labor Board require the concurrence of at least five of the nine members, and in case of decisions regarding wages or salaries, at least one of the representatives of the public must concur in the decision. If the Labor Board has reason to believe that any of its decisions or the decisions of an Adjustment Board are violated, it may, after due notice and hearing to all persons directly interested in the alleged violation, determine whether in its opinion the violation has occurred, and make public its decisions in such manner as it may determine. No penalty is provided for the violation of a decision of the Labor Board.

The English practice is in many ways preferable to the procedure provided either by the Newlands law or by the Transportation Act of 1920. In England the Board of Trade, a Government department, whose head is a member of the cabinet, has set up a standing court of arbitration to which all labor disputes may be referred. The membership of this court in any particular case is determined by the Board of Trade through the nomination of three or of five arbitrators selected from three panels. The first panel comprises persons of eminence and impartiality, and furnishes the chair-

man; the second panel furnishes the employer members, the third the labor members. When no majority can be obtained in favor of an award, owing to an equal division between the members, the chairman casts the deciding vote. In the official memorandum defining this plan it is pointed out that as the personnel of the court is constantly varied, there is no danger of the court itself becoming unpopular with either the employer class or the labor class in consequence of any particular decision. Each of these plans, however, contains an element of weakness, in that the parties to the dispute are represented on the board of arbitration. Such representation may well be prescribed in all measures of conciliation, mediation, or investigation; but when it has been applied in any or in each of these plans, and has failed to produce a settlement, it is time that another principle, that of an impartial outside judgment, should be adopted.

A feasible plan for dealing with the comparatively small residuum of unsettled disputes would be the creation of State arbitration courts and of a Federal arbitration court of final reference. The problems arising out of procedure would present few serious difficulties if the legislatures creating these bodies were content to lay down broad rules and to leave the application of them to be developed by practical experience. The success of this experiment would, of course, ultimately depend upon the men appointed to these courts; but as regards both the state and the nation the extraordinary opportunity offered for valuable public service should attract men of the highest character and widest experience of affairs, men who by their age and position would be recognized as beyond the reach of political ambition and financial considerations. For matters pertaining to technical questions inherent in industry, the services of experts

should always be engaged, not as representing the interest of one side or the other, but as temporary officers of the court.

Another aspect of the situation is that labor disputes are profoundly affected by the state of organization in which the parties find themselves. Unorganized labor and unorganized capital furnish the most perplexing problems to arbitrators, for without organization collective bargaining cannot be used and hence can neither avert trouble nor give effect to a decision in settlement. When employers and employees belong respectively to associations or to unions, agreements can be reached, breaches of contract can be taken up and discussed, conciliatory proposals can be made to each side, and if necessary, arbitration can be arranged.

In considering this matter the official summary of the views of the British Industrial Council which, after an exhaustive inquiry into practically all the principal industries of the United Kingdom, issued a report in 1913, is worth quoting:

"The desirability of maintaining the principle of collective bargaining—which has become so important a constituent of the industrial life of this country—cannot be called into question, and we regard it as axiomatic that nothing should be done that would lead to the abandonment of a method of adjusting the relationships between employers and workpeople which has proven so mutually advantageous throughout most of the trades of the country.

"The Council finds from the evidence that collective agreements have been as a rule kept. The exceptions are mainly in trades which are unorganized or in which organization is incomplete. The value of complete and effective organization on the part of both employers and

employees, they find, is very clearly demonstrated by the experience of the different trades of the country. Where organization on both sides is imperfect the existence of any agreements that may be arrived at is constantly imperiled, owing to the inability of either side to take effective action."

In the last analysis, the settlement of every dispute between capital and labor involves not only the rights but the opinion of the public. The tri-party organization of arbitration boards on which the public is represented, the selection of disinterested men as mediators, and investigations by governmental agencies all provide for participation by the public to a certain degree in the settlement of disputes. But the justice of the settlement as affecting not only the two disputants but also the welfare of the consuming public depends in a large measure upon the needs of the public and upon public opinion. Each settlement between capital and labor is in an important sense a treaty which ought to be "arrived at openly." Full publicity of the claims of the conflicting parties as well as of the findings of the investigators will give grounds for just and satisfactory settlement. In the long run public sentiment is a powerful factor.

Possibly of even greater importance than the settlement of strikes and other industrial disputes after they have been precipitated is their prevention. Especially since the great war, which brought out to a greater degree than ever before the desirability of personal sacrifice for the public good, has the principle of mutual sacrifice, when necessary in order to establish better personal relations and closer community of interest between employer and workman, been emphasized. Numerous plans to effect this end have been proposed and many of them have met with a considerable measure of success.

Among the first attempted on a large scale were the proposals of the International Harvester Corporation and the United States Steel Corporation to secure a community of interest between a company and its workmen by permitting the purchase of shares of stock at very favorable rates on payments made monthly. The burden of heavy demands at any one time is thus avoided, and thrift is encouraged by frequent regular payments. Generally speaking, however, the trade unions and many unorganized workers object to such attempts to improve their condition. They feel that stock ownership is a scheme of the employers to tie their interests into the establishment so that they will not have freedom of movement and so that, in case of industrial disputes, the employer may take an undue advantage. Such a process itself might well so shift the interests of the employed to those of the employing class, that the efficiency of the principle of collective bargaining might be impaired. Nevertheless, in many large companies it has been found that thousands of employees, especially those working on salary, have acquired stock to a very considerable degree. Stock ownership has beyond doubt frequently proved an incentive to habits of thrift, and has tended toward producing a more conservative attitude of mind on the part of the workmen in times of controversy.

For a number of decades efforts have been made both in Europe and in the United States to prevent labor controversies by arrangements through which the workers receive a certain share in the profits of industry. The theory is, of course, that profit sharing will secure loyalty and increased production; while at the same time through this added interest controversies will be less likely to occur. In plants where the employees are relatively few

and of a very high grade, profit sharing seems at times to have worked well; but in a large majority of cases it has not proved very successful. Many employees contend that if they are entitled to an increase of wage proportionate to increased profits, it would be better not to make this increase dependent upon the will of the employer but to have a direct increase in wage, weekly or monthly, paid in the usual way. They argue that to distribute a bonus at the end of the year ties them to the company and hence limits independence. Under most profit-sharing plans the employees have no direct voice in the administration of the establishments, but must rely upon the ability and honesty of the management. It goes without saying that through added diligence or care in improving the quality of the product the profits in general may be increased and the employees may well be entitled to participate in them. But if the plant has been successful for a number of years and then either through a fault of the management or adverse industrial conditions no profits are made, and workmen are asked to share a loss, dissatisfaction with the plan is bound to arise. If the increase does not come, the employees are compelled to readjust their scale of living.

Especially during and since the war, much greater emphasis has been laid upon plans by which employees are permitted to cooperate to a greater or less degree in the management. As the result of investigations and experiments first made in England shop committees and joint industrial councils on the so-called "Whiteley plan" seemed for a time to meet with a considerable measure of success. Under such plans the workmen appointed representatives to meet with the representatives of the employers in the different branches of industry to consider wages, hours, working conditions and suggestions

for improved methods. In Great Britain both during and since the war, the Government has taken an active part in the establishment of committees of this type. There are certain dangers, as well as certain advantages, in these plans. The workingmen are immediately interested in questions of wages, housing, sanitary conditions in the shops and anything which tends to affect either their comfort or the productivity of their labor. They not merely have an interest, but in many cases they are entirely competent to speak with a certain degree of authority.

It is a well-known fact that a large proportion of the inventions for the improvement of industrial processes have come from workmen who through their daily experience and with the cooperation of their fellows are able to obtain suggestions for improvements tending to lessen the cost of production. If the workmen feel that they are themselves likely to be beneficiaries, improvements will be devised. On the other hand, employees, generally speaking, have little interest in the broad questions of finance, of securing necessary credits, of determining best methods of payment for sales of the product, and so on. Therefore they are not at all qualified to speak with any degree of authority, or, usually, with real intelligence on questions of this kind. Indeed, many of our most thoughtful labor leaders, such as Mr. Gompers and others in the Federation of Labor and in the Railroad Brotherhoods, disapprove of any plan which would place upon the employees the responsibilities of management beyond the matters in which they are directly interested and of which they are entirely competent to judge.

Numerous plans have been proposed in this country for carrying out some degree of participation in man-

agement. All involve the appointment of representatives of employers and the election of representatives of workingmen, with opportunity for free conferences, but with varying degrees of power to enforce their decisions. One of the best known of these plans has been modeled after the Constitution of the United States; others proceed along somewhat different lines. It is evident, however, from the fact that no two industries are alike and that even within any one industry the conditions of different establishments are diverse, that no one plan can be everywhere adopted. While the principle of participation in management may be generally applicable, plans should be specific and suited to the separate establishments.

One of the chief complaints of labor leaders has been that wage-earners have been looked upon as a mere commodity and as a whole are not regarded by employers as human beings with feelings, aspirations and self-respect. A chief reason for the widespread adoption of schemes of participation in management is that they do recognize that the workingmen have intelligence and interest, and may show a degree of initiative which will both increase the quantity and improve the quality of production. The following plan, representative of proposals of this nature, is suggested; with modifications in individual establishments, it has worked successfully in numerous plants. The fundamental idea is the awakening of group interest and the participation in the industry by different groups within the industry itself. This plan rests upon these four principles: economic incentive to endeavor; true representation; freedom of expression; and participation in management. At the adoption of this plan, a careful study is made in cooperation with both the employers and employees of the elements of cost over which the employees have control. The elements considered

are the following: attendance, labor turnover, quantity production, waste, quality production, service, idle machines, and saving on supplies. The actual performances of the past regarding these items of cost are determined and put before both workmen and management by means of charts. Thereafter any savings which may be brought about on these items by reason of cooperation for that purpose, are placed in a so-called dividend fund. This fund is distributed monthly, 50 per cent to the company and 50 per cent to the employees. The employees receive their shares on the basis of the payroll dollar with a share for all workers regardless of the class of work they perform. The additional earnings do not take the place of wages, nor are the workmen permitted to look upon this dividend as wages. At all times it is emphasized that the dividend represents an accomplishment of something new which cannot be earned except through cooperation of all.

The plan of representation is as follows: In the larger establishments there usually exist three grades of managers: the chief executive and board of directors, the heads of departments, and the foremen. These three groups act separately in the chief executive's council, the executives' council and the foremen's council. In order, however, that the rank and file of the employees may take part also in the management as already indicated, the latter elect by secret ballot representatives to a body called the workers' council. These representatives are chosen by departments and in an equitable ratio, all departments, however, being accorded some representation. Since in the regular conduct of all business, it is not practicable to hold meetings of the larger bodies for small matters, a series of committees is elected from the workers' council and the foremen's council, each composed of

three foremen and three workmen, to look after such minor details as cooperation and adjustment, safety and accidents, health, recreation and insurance, system, production and facilities, sanitation and housing, and any others necessary in the individual plant. Likewise, in order to avoid duplication of effort, the chief executive usually appoints an advisory board to represent him, which undertakes such investigations or research as the various committees may desire in order that they may have full information. The advisory board has no final power, but serves as a channel by which the management makes suggestions or secures information at any stage of the procedure. Before any important measures are inaugurated, the advice of this board is generally sought. In the larger establishments a personnel secretary is also appointed, whose duty it is to attend all meetings of all bodies for the purpose of offering guidance and taking minutes of the procedures. He passes all finished measures to the next higher body for further consideration and generally coordinates the work of the entire association.

Each group acts separately and expresses its own opinions, passing on its views to the other bodies for consideration. Anybody in any group may initiate a measure designed to benefit the whole organization. When measures affecting the whole originate in the upper body, they are referred to the lower for consideration; when the lower body has finished its deliberations, the measure is passed on to the next higher body for consideration and approval, until it finally reaches the chief executive, who may exercise the right of veto. These various groups concern themselves only with measures which affect the entire institution, and involve a change in administrative policy or the expenditure of money. All

other matters affecting only single groups are referred to the joint committees for action. Through this group action and discussion the wage-earners come to feel that they are a real part of the institution and that its success depends upon the way in which they do their work and the attitude they display toward this work. The wage-earner has concrete evidence of the fact that he is a participant not only in the success of his concern but in the failure of all parties in that concern when a dividend is not made. He has a definite channel of expression and he may make suggestions tending to improve not only his own condition, but that of his associates.

Wherever this plan has been introduced, it has been by the cordial assent of both employers and employees; without such approval the plan is not undertaken. Experience has shown that it vitally affects the attitude of the different classes of workingmen, foremen and others throughout an establishment. Each individual feels that if he has any idea likely to be of use to the organization as a whole, that idea will be given full consideration. Most of the establishments into which this plan has been introduced have regularly paid considerable dividends which represent the added increase in the value of the output due to awakened interest.

It has been urged against all such adjustments that they tend to raise many questions which from the nature of the case are impracticable and that, therefore, harm rather than benefit will result. It is always likely that, among groups of workmen, the glib talker rather than the reasonable thinker may, for a time at least, make himself prominent. This suggests the desirability of careful selection by the management of their own representatives. Foremen who have a knowledge of human nature, and who can meet with discretion and judgment

as well as with kindly fair-mindedness any type of employee will be a large factor in the success of any such plan; and the workers are likely in the course of time to learn who among themselves will really be their best representatives.

Suggestive as are some of these plans, we must not lose sight of the fact that large industry is extremely complicated, that new conditions will arise which none of these plans can meet, and that while all should be given fair consideration, no one should expect from any plan or any series of plans a complete solution of our industrial troubles.

IX

UNEMPLOYMENT

To live at all implies a continuous outgo of money, and to maintain a comfortable standard is incompatible with a capricious and uncertain income. The standard attained depends upon annual earnings rather than on weekly wages. Interruptions of income are likely to bring inconvenience if not distress in their train. Unemployment, therefore, from whatever cause, is the leading foe of that assured standard of living, which is the goal of every worker and should be the aim of a national labor policy.

Unemployment is a threefold problem. It affects conditions peculiar to the individual worker, conditions peculiar to a specific industry, and conditions governing business as a whole. An ideal state in which every worker can pursue his occupation without interruption, in which every industry offers equal opportunities for labor throughout the year, and in which from year to year the demand for labor is always uniform, belongs in the land of dreams. But in the land of reality much may be done to reduce the amount of unemployment and to mitigate its consequences. This is the practical issue confronting the industrial world.

At any given time, as all investigations of unemployment reveal, a very considerable proportion of those out of work are temporarily incapacitated through illness. A widely quoted estimate, based on the illness records of

approximately a million workers in various industries, indicates that each wage-earner in the United States loses on the average between eight and nine working days per year. Other studies have shown that illness occurs most frequently and causes greatest loss of time among the older workers, among workers in certain occupations, and among workers whose incomes are lowest. By whatever wage scale we choose to multiply this average loss of time per worker, the loss in wages—to say nothing of the cost of impaired efficiency—reaches a staggering total, literally hundreds of millions of dollars a year. Figures so vast lead us to a new appreciation of the economic value of public health work, particularly among those who constitute the nation's productive man power. The money that has been spent with such striking results in conquering yellow fever and in keeping out the bubonic plague, in lowering the sickness and death rate from typhoid fever, in reducing smallpox from a dreaded pestilence to a comparatively rare disease—to cite no more of the past achievements of public health administration and preventive medicine—is but a bagatelle in comparison with this loss. If, as we have a right to expect, similar results can be attained against pneumonia, tuberculosis, influenza, hookworm and some of the other important causes of disability and death, no price would be too high to pay for the immeasurably greater benefits to accrue from lessening the loss of working time and thus increasing efficiency. Possibly equally great results would come from checking the minor illnesses—colds, indigestion, sick headaches and the like. While we rejoice in the greater measure of human happiness brought by decrease in illness and in the preservation of human life, we should also recognize that it is good business. Any measure which improves the

health of those who furnish the man power of productive industry is profitable.

The growing interest shown in the United States in preventive medicine should have our complete approbation and support. We should not begrudge ample appropriations for health purposes by nation, state or city, provided, of course, that we are convinced of the officials' equipment and skill to put such funds to good use. Whatever can be done to reduce the amount and duration of illness is an economic gain of the first magnitude. It means just so much saving of waste, so much saving of income, so much greater assurance that the population at large will be able to maintain unimpaired its standard of living. We shall have done much if we can reduce the prevalence of illness; we shall do more if we can mitigate its evil effects. Of the first importance is the inculcation of habits of thrift, the building up of the proverbial reserve against a rainy day. Such a reserve in many cases enables the family life to go on undisturbed at times when the illness of the wage-earning member causes not only loss of income but unusual outlay. The average American knows too little of the benefits of capital accumulation even on a small scale. Whatever tends to promote the saving habit should be encouraged. Only through the accumulation of a reserve can the worker fully enjoy the independence and self-reliance which is his birthright as an American citizen.

But the mere provision against illness does not of itself involve the necessity of capital accumulation. It can be attained at small annual, monthly, or even weekly cost through the application of the principle of insurance. Sickness and health insurance have been thoroughly established in the governmental systems of most European countries, among trade unions, among groups

of employees working in the same plants or banded together in mutual organizations of a fraternal, religious or other character, and in commercial insurance companies. There is ample evidence that in the United States private or voluntary sickness insurance is more general among wage-earners than is commonly realized, although no comprehensive statistics have yet been collected.

In 1917, according to the Statistical Abstract of the United States, there were 167 commercially organized mutual accident and sick benefit societies having 1,878,222 policies in force. The Insurance Year Book lists several national fraternal orders of large membership chiefly among wage-earning persons, which pay sick benefits, and these benefits are a common feature of trade union organizations. The foreign-born wage-earners have a large number of organizations with sickness insurance for their primary or incidental purpose. Several large industrial benefit societies have been organized without membership restrictions in regard to trade or other distinctions. Finally, there are the "establishment" sick benefit associations, composed of the employees of individual organizations. These are rapidly growing in number, and their inception and maintenance are being fostered more and more by progressive employees. Such evidence as we have points conclusively not only to the fact that the insurance principle of providing against sickness has long been recognized by wage-earners in this country, but also that it is increasingly popular. Without advertisement or organized effort, the trend toward voluntary health insurance is unmistakable and highly beneficial.

The value of health insurance—whether it be an extension of the "voluntary" kind, or a "compulsory" form

administered as a governmental function as in Germany —does not lie merely in the accumulation of a relief fund by the wage-earner for this use in case of illness. In a very real sense health insurance affords the foundation for the intelligent administration of preventive measures against the causes of sickness and against conditions favoring the incidence of disease. The employer with a well-managed sick benefit association has in his records of sickness a current index of the incidence of disability among his employees. Proper analysis of these records will yield him a knowledge, which heretofore he has either never possessed at all or which he has gained but vaguely, of the specific causes of loss of working time through illness and of the conditions with which an abnormally high sickness rate is associated. Coupled with accurate physical examinations, such analyses afford an invaluable basis—as shown in many progressive establishments—for definite and effective preventive action. They enable medical and nursing staffs to improve the health of employees and to extend their activities beyond the scope of mere relief work. Not infrequently such analyses uncover deleterious conditions in the community, crying for remedy. Analyses of this kind serve to define more accurately what disabilities are related to occupational conditions, to determine scientifically what diseases should be considered occupational, and thus to adjust more equitably than has heretofore been done between the industries, the public and the individual, the burden of responsibility for disabling illness among wage-earners and their families. In a fundamental sense sickness insurance affords a basis for intelligent preventive medicine as well as a method of distributing the financial cost of ill health.

In recent years workmen have received protection

against the results of industrial accidents in wellnigh all our States. We are now witnessing the beginning of a movement in favor of compulsory health insurance, and the Legislatures of several States have occupied themselves with such projects. The end is a laudable one; to provide an income during the period of incapacity. Those of us who feel the vital importance of individual initiative in the economic life of our country, prefer to see that end attained, if possible, through voluntary effort; but if this ideal belongs in the realm of the unattainable, it is to be hoped that the schemes now under consideration will be subjected to searching study and so modified that they will achieve the desired result not only more effectively but more economically than their present forms promise.

More or less allied to the problem of those who are incapacitated by illness is that of those who are ordinarily looked upon as simply shiftless or lazy, those who, as the expressive phrase puts it, are "born tired" and have never recovered. Doubtless in many cases the difficulty here is solely moral and, of course, appropriate measures should be applied. Those who will not work should not eat. On the other hand, as has been abundantly proved by investigations of the hookworm and other types of diseases, the fault is often not entirely with the individual. Some people are really afflicted with a little understood disease, or are so constituted that almost any effort is hard to make, and is really beyond the power of their weak wills. Such persons require careful consideration; the remedy is sometimes physical, more frequently perhaps mental or moral; often a slow course of careful training is needed to develop physical energy and will power. This may be at times a problem for the schools; it is always a matter for the serious consideration of the parties concerned.

Results of experiments carried on for years at the Elmira State Reformatory show that a very large percentage of criminals are of low grade physically, and are actually unable to jump over an obstacle a foot high, or to take any other active exercise that involves coordination of will and body. There is danger, of course, of over-sentimentality in such cases, but there is very great need of thorough scientific investigation and careful discrimination among individuals.

A second phase of the unemployment problem arises from the seasonal demand for labor in many industries. Nearly every industry shows higher demand for labor at one season of the year than another, but while in some cases the difference between maximum and minimum demand is very small, in others it is very great. Such differences always involve some dislocation of labor, and the object is to reduce to the minimum the time required for a workman to shift from one occupation to another. One of the most practical ways of doing this is to organize agencies to act as a clearing house between those who are seeking work, and those who are seeking workers. Although it is nearly thirty years since the State of Ohio began to set up free labor exchanges, it is only within the past decade that any serious effort has been made to substitute a system of free state and city employment bureaus for the haphazard methods of private agencies conducted for profit. In response to the necessity of meeting war conditions, the Federal Government established a national employment service, and its experiences show that much can be done by concerted action to reduce unemployment. In order to cope with the perplexities arising from the demobilization of soldiers, sailors and civilian war workers, the United States Employment Service laid down an elaborate employment

program in December, 1918. This program was the outgrowth of the experience that the United States Employment Service had gained since its establishment in 1914, through its activities in handling the very serious employment problems in this country from the beginning of the World War. This service was gradually extended to embrace practically all labor, with a view of building up a national clearing house for bringing together the jobless man and the manless job, which later was utilized to provide suitable work for those released from service in the army, the navy, and war industries. The novelty of the public employment service principle in this country, the vast range of its operations, and the enormous advantages which it seems capable of conferring both upon employers and employees lend interest and importance to a brief description of its organization. The responsible head of the organization was the Secretary of Labor, who was represented by a director in each State. Each State director had assisting him a responsible board of management made up of local citizens acquainted with the employment conditions in various parts of the State.

During the demobilization period the United States Employment Service of the Federal Department of Labor acted in cooperation with the governmental agencies interested in demobilization, with national welfare organizations, and with local community organizations of all kinds in establishing employment bureaus in practically all of the larger cities and in many of the smaller towns throughout the country. Among these auxiliary organizations were the American Red Cross, the Y. M. C. A., the Y. W. C. A., the War Camp Community Service, the Salvation Army, the Knights of Columbus, the American Federation of Labor, the Council of National De-

fense, the War Department, the Navy Department, the Department of Agriculture, the Post-office Department.

The instructions issued for the guidance of officials connected with the organization disclosed a carefully thought-out plan of operation. All employers were urged to register their requirements with the local board; all applicants for work were carefully registered; and a clearance system was established between the local boards to take care of applicants who could not be placed by any particular board; all records were uniform and were centralized with the Employment Service in Washington. Where cooperating agencies worked with the local bureaus, they cleared through those bureaus by pooling available jobs and available applicants.

In October, 1919, the United States Employment Service was discontinued owing to the fact that Congress failed to appropriate funds for carrying on its work. Although the experience only extended over a few years, the results seemed very promising in spite of numerous weaknesses, some of which probably arose from inexperience, but more, as is always the case, from the character of the applicants.

A third phase of unemployment exists in the recurring periods of business depression which characterize our economic life. In these periods the evil attains its most acute form, and its effects cannot be mitigated to any considerable extent by employment services for the very evident reason that at such times in all parts of the country and in practically all occupations the number of persons willing to work is greater than the condition of business permits industry to employ. The supply of labor is far in excess of the demand. As long as cyclical fluctuations in business activity occur—and we have as yet found no effective method of preventing them—we

must expect inevitable results. But, granting that the fundamental causes cannot be wholly eradicated in the near future, there is no reason why a serious effort should not be made to mitigate their disastrous effects. Defining the problem of cyclical unemployment as an oversupply of labor or as a lessened demand for labor at a specific time, is it not possible to compose this problem either by decreasing the labor supply or by increasing the demand for labor, or both?

The suggestion would be paradoxical were it not for two practical considerations. One is that in the large immigration from Europe we have a fluid supply of labor, whose ebb and flow, already responding in a very cumbersome manner to business changes, can be controlled. The other is that in the permanent public works undertaken by county, municipal, state and federal governments, there is an opportunity for employment which can be adjusted to the needs of changing conditions. It is a well-known fact that the number of immigrants increases or decreases in ordinary times according to the demand for labor in the United States. During periods of unusual industrial activity, immigration is much greater than in periods of depression. In a sense, therefore, here is a natural adjustment of the labor supply to the demand, yet in its actual operation this process is extremely slow. Not until unemployment and suffering become quite acute does immigration slow down or any considerable departure of immigrants occur. This fluid portion of our foreign-born labor furnishes, incidentally, our least desirable citizens, for it is composed chiefly of males without families who have no intention of becoming naturalized. At all times they are in competition with American workers and with foreign-born workers who have emigrated for the purpose of becoming citizens here,

In times of business depression this competition is most seriously felt since the misfortune of unemployment and lessened earnings falls the more heavily upon the workers with dependent families. Obviously, the practical method of dealing with this phase of the situation is to regulate the flow of immigration in such a way as firstly, to prevent the home labor market from being flooded at any time; and secondly, to curtail the number of admissions to our ports of entry promptly when the demand for labor begins to be less active. When we remember that in ordinary times the number of immigrants yearly averages about a million (as in the period between 1903 and 1914), we can realize what a marked effect a curtailment of immigration would have on unemployment if put into effect promptly and not left to the painful course of natural adjustment.

On the other hand, our county, municipal, state and federal governments annually spend hundreds of millions of dollars on roads, buildings and other public improvements. In spite of the fact that a large part of these permanent improvements are paid for from the sale of bonds, sold in competition with industrial issues, the tendency is to undertake the improvements in times of business activity. Thus their effect is to increase the opportunities for employment when such opportunities are abnormally numerous. A little foresight on the part of those who appropriate the public moneys and who administer public works would result in a special effort to undertake permanent public improvements as far as possible when the supply of labor is most plentiful. The advantages of such a policy would be not only with those who were given the opportunity for employment but also with the public. The regulation of immigration and the planning of public improvements is as feasible

as it is sound business policy. The indications of an approach of a period of depression are no longer vague or uncertain, for more than one trustworthy barometer of business conditions has been developed and is in actual use by progressive financiers and business men. Dependable current statistics of unemployment and the labor market can be used as indices upon which to base at least these two adjustments. The policy of restricting immigration to safeguard public health has been thoroughly established provided the laws are properly enforced, and the practice of turning the flow of immigration toward localities where labor is most needed is not new.

The Bureau of Immigration has long had a division of information whose business it has been to supply to immigrants—and to others as well—reports regarding the over-supply or under-supply of laborers in different parts of the country on the theory that a better distribution of newly arrived immigrants could be thus effected. If this information work, however, were combined with that of federal employment bureaus coordinated with offices in various industrial centers, it might then easily prove more effective in lessening unemployment.

The political menace of riots, of revolutionary agitation, and of the growth of revolutionary radicalism is greatly stimulated by unemployment, especially when it is caused by long periods of business depression, or by strikes led by revolutionary agitators. It is eminently desirable to control immigration as a protection against unemployment both in general and for this specific reason, since it is among the non-English speaking immigrants who are almost totally unacquainted with American institutions that these revolutionary doctrines take hold most easily and to the most dangerous degree.

So intricate are the ramifications of modern indus-

trial society that it is impossible to describe any single element as the cornerstone of social welfare; but to furnish labor with steady remunerative employment may justly be claimed as an object upon whose realization the success of any other aim must largely depend. The employment problem should, therefore, always be uppermost in the minds of those who are working for the betterment of our political and social life.

X

IMMIGRATION

THE phases of the labor situation which have been discussed thus far are present to a greater or less degree in all countries of advanced civilization. We must now consider one that plays no conspicuous rôle in the older countries,—immigration, which for years has menaced the American standard of living. Between 1820 and 1919 no less than 33,200,103 immigrants landed in the United States. The census of 1910 showed that out of a population of 82 millions 13 millions were of foreign parentage and 6 millions of mixed native and foreign parentage. These figures impressively exhibit the difficulties in the way of securing for the United States a permanent civilization based on the so-called Anglo-Saxon model. Only within the past thirty-five years has immigration assumed a character which threatens seriously to modify our whole social structure; and within this period the last two decades have afforded the most disturbing phenomena. Up to about 1880 more than 90 per cent of our immigration came from northern and western Europe, chiefly from the United Kingdom, Germany and Scandinavia. In 1913 more than 86 per cent came from southern and eastern Europe, principally from Russia, Italy, Austria-Hungary, the Balkans, and non-European countries.

The significance of these ratios can best be appreciated if the total immigration for the ten years ending December 31, 1913, is analyzed. In the following table the

class "all other countries" includes Turkey in Europe, Turkey in Asia, Greece, Rumania, Bulgaria, Serbia, Portugal, Spain, and all non-European countries, except Japan, which is separately recorded.

TOTAL IMMIGRATION INTO THE UNITED STATES
1904–1913

From Northern and Western Europe		From Southern and Eastern Europe, etc.	
United Kingdom	978,165	Austria Hungary	2,246,640
Scandinavia	436,501	Italy	2,106,442
Germany	345,635	Russia	1,880,765
France	87,859	Japan	109,227
Netherlands	61,558	All other Countries	1,426,067
Switzerland	37,461		
Total	1,947,179	Total	7,769,141

GRAND TOTAL—9,716,320

Measured by their standard of living and by their political experience, the immigrants enumerated in the left-hand column—those from Northern and Western Europe—are much more akin to American social conditions than those enumerated in the right-hand column —the immigrants from Southern and Eastern Europe, and from non-European countries. These figures show that within ten years we have welcomed to our shores nearly eight million people whose customary food, housing, and clothing, and whose average of education and political experience, represent a much lower development than our own. The great majority of these people are industrious and law-abiding, and constitute a valuable addition to our population. But their presence in the country has an influence upon the political situation and especially upon wages and upon living conditions which must be carefully considered. Fortunately the facts are available upon which to base a sound judgment. The

United States Immigration Commission, during an inquiry covering four years, thoroughly investigated every aspect of the subject, and in 1910 issued an exhaustive report in forty-two volumes. The gist of the information contained in this Report has been summarized by Jeremiah W. Jenks and W. Jett Lauck in their volume entitled "The Immigration Problem," of which the fourth edition was published in 1917. It is evident that these millions of immigrants have made a profound impression upon every element in our national life; that they have influenced, beneficially or otherwise, our health, our morality, our industry, our education, our politics, our standard of living—in a word, our whole economic and social fabric. We are concerned at present with immigration only in so far as it has directly affected the relations of labor and capital; that is to say, immigration as a factor in the labor supply and as an influence in determining wages and the general living conditions of labor.

Capital and labor hold, of course, very different views as to what constitutes a satisfactory labor supply. The employer of labor, and especially the employer of unskilled labor on a large scale, too often regards a supply of labor as satisfactory only when it has reached such a stage of oversupply that he can pay reduced wages and compel the acceptance of poor working conditions. Employers who take this narrow and selfish attitude have every reason to welcome an abundant immigration from those countries which furnish the most ignorant and the least exacting laborers, for such immigrants are content with a low standard of living, will accept a low wage, and usually refrain from joining labor unions. The American wage-earner, on the other hand, rightly feels that his whole social and economic interest is threatened if immigration of this character stimulates competition

among workers for jobs, instead of among employers to secure workers. Competition for jobs causes wages to fall, working conditions to decline, and unemployment to appear.

Some aspects of the competition between the immigrants and native American wage-earners may be gathered from the following table:

	Native Born White	Foreign Born Chiefly White
Average annual earnings of males *....	$666	$455
Average amount of family income **..	865	704
Percentage of families in which husband alone provides income.....	58.4%	38.05%
Percentage of families in which boarders and lodgers provide income **..	6.7%	25.5%

(Jenks & Lauck—"The Immigration Problem," pp. 166, 169, 171.)

* Based on study of 26,600 male wage-earners engaged in different branches of mining and manufacture.
** Based on study of 15,700 families.

Striking as are the comparisons furnished by this table they do not disclose the full seriousness of the situation, because the figures for the foreign born include the immigrants of a higher economic status as well as those of a lower status. In order to see in its true light the effect of immigration upon wages, it is necessary to compare the wages of native-born white Americans with those of the higher and of the lower grade immigrants (see table on page 132).

It is to be noted that the low-wage races named in the right-hand column are among those which for many years have furnished most of the immigration of this country, and that the high-wage races in the left-hand column contribute a constantly diminishing proportion of our immigrants. The rapid increase in the former class and the rapid decline in the latter are shown by a

AVERAGE WEEKLY EARNINGS OF MALE EMPLOYEES*

Native White	$14.37	Greeks	$8.41
Welsh	22.02**	N. Italian	11.28
Scotch	15.24	S. Italian	9.61
Irish	13.01	Macedonian	8.95
Scotch-Irish	15.13	Polish	11.06
English	14.13	Syrian	8.12
Norwegian	15.28	Turkish	7.65
Swedish	15.36	Russian	11.01
Danish	14.32	Russian Hebrew	12.71

* Jenks & Lauck, *Op. Cit.*, pp. 531, 532.

** Welsh immigrants whose earnings are shown are mostly men of experience and training in manufacturing or mining, whose earnings are large because of their training before coming to this country.

comparison of the foreign-born population in the United States as shown by the censuses of 1900 and 1910:

FOREIGN-BORN POPULATION OF THE UNITED STATES

	1900	1910	
Total	10,341,276	13,515,885	
Great Britain	11.3%	9.0%	Northern and Western
Ireland	15.6	10.0	Group, each showing
Germany	27.2	18.5	a DECLINE.
Scandinavia	10.4	9.3	
Canada, Nwflnd.	11.4	9.0	
Austria-Hungary	6.2	12.4	Southern and Eastern
Russia	6.2	12.4	Group, each showing an
Italy	4.7	9.9	INCREASE OF 100% or more.

The principal evils which have resulted from the great influx into the United States from Southern and Eastern Europe have been:

1. To keep down the wages of native Americans and of the Northern and Western European immigrants.

2. To retard improvement in the general working conditions of labor, especially in mining and manufactures.

3. To flood the country with laborers illiterate in English and, therefore, difficult to develop in efficiency, to

elevate to the American standard of living, and to assimilate into our social and political system.

Public opinion has not been slow to recognize the dangerous possibilities of a practically unrestricted immigration, and from the year 1882 onward Congress has passed a succession of restrictive measures. But although these laws have to a degree excluded criminal, insane, diseased, and anarchistic immigrants, it was not until 1917 that any step was taken to check the flow of immigration from Southern and Eastern Europe, which has become the central problem of our immigration policy.

The principal feature of the Burnett-Dillingham Immigration Bill of 1917, passed over the veto of President Wilson, is a literacy test imposed upon all immigrants. No alien over sixteen years of age can enter the country unless he can read some language or dialect, including Hebrew or Yiddish; certain exemptions are allowed. Owing to the extremely small trans-oceanic immigration since the passage of the literacy test, the benefits anticipated from this law at the time of its adoption as a part of our immigration legislation have not yet appeared. It has found its most frequent application on the boundaries of Canada and Mexico where special and peculiar conditions exist. On the southern border the exceptions made as a war measure in favor of immigrants coming from Mexico have so modified conditions that a fair estimate hardly can be made as to what the effect of the literacy test would be under normal conditions. During the fiscal year ending June 30, 1919, the aliens admitted to the United States numbered only 141,132 as compared with a yearly average for the ten years previous to the World War (1904-1914) of 1,012,194. The aliens excluded at the ports of entry during the fiscal year 1919 were 8,626, or about 3.5 per cent of the total

number applying for admission. Of these rejections, 1,455, or about 16 per cent, were excluded for failure to pass the literacy test. The figures for the fiscal year 1918 are 110,618 aliens admitted and 7,297 debarred, including 1,598 rejected for illiteracy.*

Although it is impossible as yet to judge what the effect of the literacy test is likely to be there is little reason to suppose that it will greatly reduce the type of immigration at which it is aimed. It is true that of the immigrants arriving from Southern and Eastern Europe about 68 per cent are illiterate, as against 3 per cent of illiteracy from Northern and Western Europe, but it by no means follows that this immigration will be reduced by 68 per cent. The Burnett law does not place a quantitative limit upon immigration from Southeastern Europe. The reading test is so simple that it can easily be met by a short period of coaching before arrival; and immigrants who can barely read may come over instead of those who cannot. Another doubtful feature of the restriction is the exception under which an immigrant who cannot read may be brought in as the wife, daughter, mother, or, if fifty-five years of age, as the father or grandfather of an immigrant who can read. Moreover, it appears that practically all restrictive tests may be waived if the immigrant can prove or can convince the immigration authorities that he comes on account of religious persecution in his own country. This reason seems lately to have been frequently alleged. The truth is that the Burnett law approached obliquely a problem which, more than any other national problem, should be faced directly. What the country needs is not that its immigrants should be able to spell out a few words of Yiddish, Russian, or Greek, but that they should belong

*Report of Commissioner General of Immigration, 1919.

in the main to races which either bring with them a civilization similar to our own, or else show themselves willing to become citizens and to adopt our social standards.

The question of race as a factor in our immigration policy has become one of growing importance for the last few years. Of late the controversy has been sharpened by the acts of the California Legislature and now of the California referendum on the question of land ownership or leasing, the race especially under consideration being the Japanese. The essential element in the entire controversy is that of assimilability of races materially divergent from the white race. Where races are so widely divergent in appearance and personal characteristics or in religious customs and laws that there is little inclination for normal marriage and consequent intermingling through blood relationships, the most complete assimilation is, of course, impossible.

So great a difference in race does not of itself necessarily imply any superiority or inferiority of the races concerned. It implies merely a difference so great that the closest human relationships cannot be attained. On that account the chances of very important differences in all social relations, including political relations, are greatly increased; and in a democratic country where it is extremely undesirable to have any feeling, not to say recognition, of caste or classes permanently separated from one another, the significance of the problem is increased. This is really the fundamental basis for the feeling on the Pacific Coast and elsewhere regarding the immigration and the naturalization of Japanese, Chinese, Hindus, or other races widely divergent from the white race.

Without entering into the details of the discussions regarding Oriental immigration, it is nevertheless of vital importance that every student of social conditions in the

United States give the fullest consideration to the question of race as a factor especially in this question, but also in other political questions that may well arise.

Efforts have been made by a number of people eager to bring about harmonious relations between the United States and the Oriental peoples, especially the Japanese, to frame an immigration policy which would protect the United States and especially the western coast against a large influx of Oriental immigrants and at the same time remove any special ground for a declaration that they were treated as an inferior race. Perhaps the most noteworthy attempt in this direction is to be found in the writings and publications of the Reverend Sidney L. Gulick and in a bill (H.R.14196) now before Congress (1920), introduced by Congressman Benjamin F. Welty. The special feature of the bill touching upon this question is that a percentage test be made limiting the number of immigrants of any ethnic group to be admitted in any one year to a small percentage of (a) American-born citizens whose foreign-born father or mother belonged to such ethnic group and whose children were residing in continental United States, as shown by the last available United States census, and (b) naturalized citizens residing in continental United States as shown by the last United States census.

Statistics show that a limitation of immigration in this way would not prevent the admission of as large numbers as might wish to come from Northern Europe, but would cut down quite materially those coming from Southern and Eastern Europe, and would probably restrict the number of Japanese even more than do the present regulations. But as regards Japanese immigration, our treaty with that country must be in conformity with the expressed wish of the people of California.

Starting from the generally accepted premise that the whole volume of our immigration must be greatly reduced for the present at least if our standards of living are to be upheld, the task to which we should set ourselves is to see that the reduction falls upon those classes of immigrants who are the least desirable from the standpoint of national policy. No better general test, unless it be that of an unassimilable race, could be devised than the readiness with which the various immigrating races tend to become citizens in their new country. Figures bearing upon this point are given in the following table, abstracted from the report of the United States Immigration Commission (Vol. I, p. 484, year 1910), and based upon an investigation of 79,000 immigrants. There is no reason to suppose that the percentages would be greatly modified if a larger number were included.

PERCENTAGE OF IMMIGRANTS FULLY NATURALIZED
(Males 21 years of age or over, resident 5 years or over in the United States).

Swiss*	76.3%	Austrian	22.1%
Swedish	73.9	Polish	19.0
Welsh	73.0	Russian	15.1
Irish	70.2	Slovenian	14.3
German	69.6	Slovak	12.1
Scotch	64.1	Magyar	10.8
Danish	62.9	Spanish	9.7
Norwegian	55.6	Ruthenian	8.7
English	55.2	Rumanian	8.6
Dutch	51.8	Greek	6.9
Belgian*	45.1	Serbian	4.7
French	40.9	Portuguese	3.2

* Race not specified.

It would be impossible to exaggerate the importance of the facts disclosed in this table. Every race showing a large percentage of naturalization has a high value as an element in our population when it arrives; every race showing a low percentage has a low value. The former

come entirely from Northern and Western Europe; the latter from Southern and Eastern Europe. These facts suggest a just and feasible plan for limiting immigration into the United States. Let us decide upon the number of immigrants we are willing to receive each year, and then apportion the number according to the record of naturalization among the various races who follow the occupations needed. There would be no well-founded objection to such a rule, for it could be formulated in terms free from declarations of national or racial discrimination. Such a policy would improve the quality of our immigration from all countries, and it would avoid much suffering if the work of debarring undesirables could be carried out abroad, before departure, instead of after arrival here. In other words, we might well maintain a number of "Ellis Islands" in Europe instead of one Ellis Island in New York Harbor. It is true that the number of immigrants who are actually refused admission is comparatively small and that many would-be immigrants are prevented from leaving European ports through the adverse rulings of American medical officers abroad, whose inspection they must pass; but this does not by any means cover all the necessities of the case.

Although we very properly take stringent measures to keep out the insane and the diseased, yet it is at least as important that we should exclude persons who are undesirable on political or social grounds. Cases of this character are almost impossible to settle here, but they could readily be determined on the other side if our consulates were provided with a staff for this purpose, who might cooperate with the local native officials. Some countries might not consent to this at first, but others are already willing and doubtless in time the cooperation would be general. The control of our immigration, in-

stead of being vested in a bureau, should be entrusted to a Commission of five members, let us say, of the very highest quality, with much broader powers than those exercised by our present immigration authorities, and with a constructive program to guide them. Such a commission would prepare a plan not only to enforce the immigration law, but to care for and protect the immigrant after his arrival. With more than thirteen millions of persons of foreign birth in the United States, their proper treatment is one of the most important as well as one of the most neglected tasks of our national government. Employment agencies, which would assist immigrants to find their best place in American life; helpful publications to familiarize the newcomers with American institutions and with the opportunities and duties of citizenship; close cooperation with the very important work done in several of our States through their departments of education and voluntary associations; all these might form part of the activities of such a Commission.

The Commission should be granted a degree of discretion in its enforcement of the immigration law; that is to say, the law should be so framed as to permit the Commission to be lenient in its requirements for admission to the United States at times when the country is in need of labor, and rigid during periods of depression or unemployment. A similar plan has worked very well in Canada. While space forbids its elaboration in this chapter, the plan for a permanent Immigration Commission functioning along the lines broadly outlined here, with agencies abroad, is offered as a fruitful subject for careful consideration by our Government and by the nations whose welfare is bound up with the prosperity, loyalty, and contentment of our foreign-born population.

III

PROBLEMS OF BUSINESS

XI

THE HIGH COST OF LIVING

UNDER present conditions there is no need of elaborate definition or extended discussion about the fact of the high cost of living. The cost of living is high not only in the United States, but in practically the entire world, mainly because the great war brought about an increase in prices, relatively greater than the increase in the incomes of large classes of the population. Practically every one is materially affected by the high cost of living, but the effects upon different classes have been by no means identical. Some have been enormously benefited, while in many instances the variations in monetary expenditures have been offset by corresponding variations in income. The index numbers computed by the United States Bureau of Labor Statistics afford a basis on which to estimate what this increase in prices has been. Considering wholesale commodity prices in 1913 to be at a base line of 100, the increase to March, 1920, raised that base to 253; for retail food prices the new base became 200. For the aggregate of a number of items such as those that enter into an ordinary family budget (food, clothing, fuel and light, housing, furniture and furnishings, miscellaneous) the increase brought the figure to 183. Various other index numbers might be used, but the general results could perhaps not be summed up better than in the figures just given.

What can the Government do to provide a remedy for

the evil effects of this state of affairs, and what can we as individuals do? These are important questions for all of us. The answers to such questions depend, of course, upon the causes of the phenomena, and the finding of those causes is a complex task. It is easy to say that the prime reason for the high cost of living is the great war, but little good can come from such a bare answer. The result has come from the interaction of numerous forces, in many cases of succeeding series of influence. It is certain that in the discussion of remedies, we must consider various measures that should be undertaken by the Government, by individuals, or by groups of individuals.

But there are some general considerations not to be overlooked. It has been wittily said that the difficulty is not so much that the cost of living is high as that we have to pay for the cost of high living. The fact is well established that, if we take a period of years into consideration, the standard of living of practically all classes of the community has decidedly improved. Such a change is, of course, normal in the progress of civilization and is highly desirable. It is quite as it should be that certain ways of living and certain articles of consumption, once luxuries, should, as the years go by, become substantial necessities. A generation ago bathtubs, gas or electric lights, and an abundant pure water supply in the dwellings of the average wage-earners were rare. Today they are practically universal necessities. In the progress of society, new inventions and better methods of production will bring many improvements in the standard of living with no increased monetary cost. Even should there be an increased monetary cost, it should be met by increased earnings.

Aside, however, from the advance in the standard re-

quired by health and comfort, the improvements arising from a normal growth of education and intelligence and those due to a gain in moral standards, there are multitudinous instances of increased cost from sheer wasteful extravagance which bring no real improvement in the standards of living. Persons whose income has greatly increased through adventitious circumstances rather than through merit, have often been led into most unwise extravagances. In Great Britain and France, as well as in this country, the highly paid munition workers purchased much expensive jewelry and showy but unsuitable clothing, and consumed costly foods, tobaccos and liquors. Regardless of the size of income, we should always keep in mind the distinction between stable beneficial improvements in the standard of living and unwise extravagance.

A distinction is always to be made between the high cost of living and high prices. The high cost of living depends upon the relation between the prices of the articles consumed and the income of the consumer. An increase in the prices of commodities in many instances leads to an increase of income at least proportionate to, if not in excess of, the increase in prices. From this point of view there has been, relatively speaking, a less increase equivalent to a net decrease in the cost of living. In other cases, however, the increase in general prices has led to no corresponding addition to the monetary income, and in these instances the cost of living has increased proportionately to the increase in prices. The effects upon different classes of people in the community depend largely upon the causes of this increase. If in the case of a special commodity it is due to a general larger demand for the goods when it is impossible to increase proportionately the supply, the question at once arises, Who is to be or who can be the purchasers of the relatively limited stock

of goods? The purchasers may be merely those who have the larger amounts of money, but they might also be those who more greatly need the article in question and who are prepared to make the necessary monetary sacrifices in order to meet that need. Consider, for example, the case of our enormously increased demand for certain types of medicines. They are required by hospitals and doctors, but are not needed by the great mass of healthy people in the community.

During the war the entire output of goods classed as munitions, used but little outside of war needs, was bought by the Government. The increase in prices affected little the lives of private individuals. On the other hand, certain war supplies such as cotton, many types of woolen goods, dyes, and various kinds of foods are consumed widely by private individuals. The enormous increase in demand from the Government, greater than could possibly be met by a prompt increase in supply, not only put up the prices to private individuals, but in numerous instances actually made it impossible for them to secure the goods at any price. In consequence people had to take what they could get and pay substantially whatever price was asked.

Another factor affecting different members of the community in different ways is the burden of taxes largely caused by the war. Personal income taxes apply in much the same way to individuals whatever their business, and yet people are able more or less to evade them by the nature of their investments and by the way in which their business is handled, and still keep within the letter of the law. When the taxes are upon the business itself, as in the case of the excess profits tax, the burden is in many cases transferred to the consumer. The producer is often able to insure himself against the likelihood

of future tax levies by increasing his prices more than the tax itself directly justifies. Here again the abnormal conditions caused by the war have shifted the burden of taxes among different members of the community in ways that are often most unjust.

What are the more direct causes of the really great increase in prices? The chief cause, in the opinion of practically all competent students of the subject, relates to the increase of the effective money supply. The first factor in this increase is an addition to the supply of gold used either directly or indirectly as money. The effect of any great increase or decrease in the world's gold supply has long been observed by economists. The reason for the increase in prices from an addition to the supply of money is evident. The price of any commodity is an expression of its value in terms of money. If people were accustomed to exchange one bushel of wheat for four bushels of oats, a doubling of the supply of wheat (the money commodity) in the market, other factors remaining the same, would lead them to give two bushels of wheat for four bushels of oats; in other words, the price of oats expressed in terms of wheat would have doubled. On the other hand, if oats is taken as the standard of measurement (the money), the price of wheat would have fallen 50 per cent, since now one bushel would buy only one-half as many oats as heretofore, because the relative supply of oats has decreased one-half, and its relative value has correspondingly increased. If we look upon money as a commodity, used as the standard in exchange, we see that the same principles apply, though, of course, in actual business life other factors always modify somewhat their application. From 1872 to 1896 there was a large decrease in the prices of commodities, due apparently in part to a slackening in the output of

gold; in part to the greatly increased demand for gold for monetary uses caused by the establishment of the gold system in Germany, Austria-Hungary and the Scandinavian countries; and in part to the increase in the demand for gold in the United States and the countries of the Latin Union, France, Italy, Switzerland, etc., which had abolished their bimetallic systems. Gold had become relatively more valuable. In 1897, however, the upward turn in gold production came with the discovery of new mines, and especially perhaps by reason of the application of new methods of extracting gold, and gold became relatively less valuable. People were willing to give relatively more of it in exchange. The accompanying table giving the world's gold production in ounces and in percentages of the average output for the years 1895 to 1904 shows clearly this increase (see page 149).

It should be remembered also that gold used as money is largely imperishable, since for the most part it forms reserves lying in bank and treasury vaults, where there is little opportunity of loss through carelessness, theft, or abrasion. Such part of the annual output as is used for monetary purposes is in reality added to the large stock already on hand and thus continually increases the total available supply.

The effect of these processes on prices, though evident, had been little emphasized up to the outbreak of the European War. During the last two years of the war, there was a slight falling off in the output, but in the meantime other factors had entered into the problem so that no noticeable effect toward lower prices could be seen. The increased gold supply was, of course, a world phenomenon and the steady increase of prices was observed in the other great commercial countries as in the United States.

	(000 omitted) Ounces *	General Index Number of Gold Production (Average 1895-1904=100)	Special Index Number (1913=100)
1895	9,615	73.1	
1896	9,784	74.4	
1897	11,420	86.9	
1898	13,878	105.5	
1899	14,838	112.8	
1900	12,315	93.7	
1901	12,626	96.0	
1902	14,355	109.2	
1903	15,853	120.6	
1904	16,804	127.8	
1905	18,396	139.9	
1906	19,471	148.1	
1907	19,977	151.9	
1908	21,422	162.9	
1909	21,965	167.0	
1910	22,022	167.5	
1911	22,348	170.0	
1912	22,549	171.5	
1913	22,250	169.2	100
1914	21,240	161.5	95.5
1915	22,675	172.5	102
1916	21,971	167.1	98.6
1917	20,290	154.3	91.2
1918	18,427	140.1	82.8
1919	17,664 (est.)	134.3	79.4

*Annual Report of the Director of the Mint, 1919 (Treasury Department, Document No. 2849).

A second class of non-war causes of high prices in the United States came from the reorganization of the American banking system. It is impossible to determine just how far some of these changes were influenced by the war, but the changes essentially affect banking methods and have no immediate relation to war. One of these changes is the important reductions made in the legal reserve requirements of our Federal Reserve banks. Under our old system of national banking, the reserves, wastefully scattered throughout the country in different banks,

had to be abnormally large. The Federal Reserve system provided both for a marked concentration in reserves, leading to their most effective use, and later to a decided lessening in the ratio of reserves to deposits. Professor Kemmerer in his very thorough address on the causes and progress of the inflation given before the Academy of Political Science in New York in April, 1920, called attention to the fact that taking the three classes of banks, central reserve city bank, reserve city bank, and country bank, the average percentage of reserve to deposits in 1913 was 16 per cent; whereas after the Federal Reserve Act of that year should have gone into full effect, the permissible lowest legal cash reserve would have been only 8.8 per cent of the deposits. He estimated that this would in itself have released from the ultimate legal cash reserves some $511,000,000 necessary as reserves, thus making possible, before it became imperative to add further gold reserves, an increase in deposits of some $5,800,000,000. Of course, as a practical matter, such an expansion would probably not have taken place. Some of the gold thus released would probably have gone into the arts, and had it not been for the legal restrictions put upon the export of gold on account of the war, doubtless a very considerable percentage of the gold thus released would have been exported. It is nevertheless clear that there is a possibility of great expansion in credits. Under the Reserve Act as passed it was expected that this decrease in reserve requirements would take place gradually, but under the pressure of war, changes were made rapidly and new provisions reduced to a still further extent the reserves required by law.

In addition to the lessened demand for reserves as against deposits we may note a further increase in the amount of gold available for actual currency. This was

brought about by the practice of the Government of substituting for our gold certificates (which are really mere certificates of deposit requiring 100 per cent reserves) Federal Reserve bank gold notes, requiring under the law only a 40 per cent gold reserve. In 1913 the circulation of these gold certificates amounted in round numbers to about $1,000,000,000. By this change in policy there was made possible a net currency expansion of $1,500,000,000. Here again it should be noted that, had it not been for the war, the effect on prices in the United States would have been greatly lessened, for such a release of gold would normally have led to a heavy exportation of gold and the consequent diffusion of this effect throughout the commercial world. The embargo upon the exportation of gold during the war, of course, increased the effect upon prices in this country.

Other regulations of the Federal Reserve Board regarding its clearing and collection systems added to the efficiency of the banks with the result of increasing the rapidity of the circulation of money. This again had a tendency to make the use of the reserves more efficient, thus enlarging the effective currency supply as if there were an increase in the number of dollars.

Aside from the total swelling of the world's gold supply and its more effective use, there is to be noted the great increase in the gold supply in the United States. Beginning with the outbreak of war in 1914, Europe made strong demands upon the United States for payment in gold of our current indebtedness to her. From August to November, 1914, we made a net exportation of gold of 85.7 millions of dollars. By December, 1914, the great demand for American goods had changed the situation and an importation of gold began. From August 1, 1914, to April 1, 1917, therefore, about the

time we entered the war, there was a total net importation amounting to $1,109,000,000. At this same time the exports of the United States exceeded imports by $6,054,000,000, an average monthly rate substantially four times the rate for the preceding three years. After our entry into the war exports of merchandise increased still more, but inasmuch as we were ourselves participating in the war and our Allies could not well export more gold, this balance of trade had to be taken care of by securities rather than by gold. With the gold actually received from Europe, chiefly before our entry into the war, and with its retention here due to the embargo upon its export, monetary gold in this country increased by about $1,100,000,000, an amount considerably more than half as large as our entire stock of monetary gold had been at the beginning of the war. After its outbreak there was a still further reduction in the legal reserve requirements of the banks, sufficient to permit a larger legal deposit expansion of not less than some $17,000,000,000 for all classes of banks.

These enormous increases in the effective monetary supply would of themselves be sufficient to account in good part for the increased prices. To this direct currency expansion, however, are to be added other influential causes. The war called for a sudden and enormous further production of war munitions and supplies. After the United States entered the war this demand grew rapidly, and bore little relation to added costs. The government needed the goods and was willing to pay whatever was necessary. Furthermore, both in Europe and in this country, millions of men actively engaged in production were withdrawn from it and set to the work of destruction of both lives and property, and this again lessened the supply of goods while in many fields the demand was

increased. Professor Kemmerer, in the article already cited, estimates that from 1896 to 1913 the increase in the physical volume of business was approximately 7 per cent a year, whereas between the years 1913 and 1919 the rate of increase was only about 1.6 per cent.

Attention should again be called to the change in the nature of the expenditures made by both government and people. The Government was buying munitions of war and war supplies, not to be used in further production as is the usual purpose of expenditures in time of peace, but to be used for destruction. Not only are cannon and munitions used up or destroyed during hostilities much more rapidly than are machines in time of peace, but clothing, food supplies, medicines and all the other products that have a common use for both war and peace, are much more rapidly consumed in time of war. As already stated, owing to the abnormal conditions caused by the war, many individuals began careers of extravagance in their private expenditures which would have been impossible in normal times. All these influences tended toward a strong upward trend of prices.

The possible expansion of bank currency and bank credits became to a very great extent an actual one owing to the government's war policies of issuing bonds and of encouraging both banks and private individuals to invest in these bonds to an extent much greater than is either normal or wise in times of peace. To supply itself amply and promptly with necessary funds, the government not merely issued bonds at rates below the market price for money through appeals to patriotism, but encouraged the banks and private individuals to extend their credits to the utmost limit on the basis of government bonds as securities. In addition, the Treasury employed great quantities of credit currency by the

issuance of Treasury Certificates of indebtedness in anticipation of loans and tax revenues. These practices not only directly expanded the credit of banks and individuals to a degree unknown before, but in addition thereto stimulated in many individuals the habit of borrowing and spending to an extent previously undreamed of. All these circumstances tended not only toward inflation of credit, but toward extravagant expenditures on the part of both government and individuals, and they necessarily exerted a profound effect upon the cost of living.

It is important to revert again briefly to the varying effects of these great increases in prices upon different classes of people in the community. The enormous demand for goods, especially war munitions and supplies, in many cases regardless of cost, naturally led to a rapid increase in wages, and, under the stimulus of war contracts, to the bidding of contractors against each other for workers, whose wages were thus increased by leaps and bounds far beyond the rate of the increase in prices. These wage-earners were largely certain types of skilled mechanics and very often unskilled workmen. On the other hand, persons living on more normally fixed salaries such as government clerks, clerks in banks and shops, teachers and clerical employees of all kinds had to support life with practically no increase in wages, while under the necessity of paying greatly increased prices. Even after the pressure had become in many cases desperate and after the public had recognized the need of meeting increased prices by increased wages, the rate of increase in wages lagged far behind the increase in prices. Generally speaking, we can say that hand workers and perhaps skilled labor benefited far more than clerical labor, or than school teachers, salaried accountants,

preachers and skilled workers whose preparation for their professions requires long special training at schools and colleges.

We have heard much of the "profiteers" who are supposed to have taken advantage of the abnormal conditions to amass huge fortunes. Doubtless in many instances, owing to the imperative need of the Government for prompt supplies and for practically unlimited production, the establishments equipped to turn out such products at the least cost benefited greatly. Since enormous quantities were needed, the Government called into its service practically all establishments available, even though the cost of production was high. A uniform price for a product gave great profits to the best equipped, lowest cost plants. If the producers delivered a product of the highest quality and with the greatest speed possible, thus rendering the best service, should they be branded as "profiteers"? Such establishments, of course, paid a larger percentage of taxes out of their profits than did those who were producing at higher cost and presumably at less speed. Are they not then to be looked upon as "economic opportunists" rather than "profiteers"? The same distinction should be made in the case of many industries not directly furnishing war supplies whose business was affected by war conditions. In the building trades, producers of steel and lumber and equipment of all kinds, especially if they were the owners of the raw materials, often made enormous profits. They had purchased their supplies in times of peace. Both the government and private individuals were ready to offer them prices several times as high as before the war, and the privilege of buying at these high rates was eagerly sought. Business men are hardly to be blamed if they accept such an opportunity when it offers. When manufacturers were

compelled to buy their raw materials at rapidly increasing prices, it was natural that they should ask for their products prices not only high enough to meet the immediate added costs of production, but also high enough to insure themselves against the increased costs of raw materials and wages likely to come in the near future.

As products pass through several stages from raw materials to partly finished and then to finished goods, as from wheat to flour and flour to bread; or from pig iron to steel, from steel ingots to bars, from bars to machinery of all kinds, it is natural that the rate of profit should increase with each new handling, so that the cost to the consumer is very greatly enlarged. The retailer, having, relatively speaking, a larger capital invested, and quite possibly also a greater cost of handling, probably took during this period the highest percentage of profit of any in the series. In many individual instances doubtless there has been heartless profiteering on the part of capitalists and in some instances of laborers also as has been proved, and one must not excuse these men in the least, but in many cases, what looked like profiteering was simply a response to an insistent demand and the acceptance of special offers.

What is to be done either by the government, or by private individuals in regard to this difficult question? The causes, as we have seen, are various; the remedies must likewise be several. Not one of them is likely to be completely effective and all of them taken together cannot produce satisfactory immediate results. To remedy the inflation of currency and of credit, some steps have already been taken; others will doubtless follow. The Federal Reserve Board, acting through the banks, has already undertaken to contract the currency by gradually calling in loans and restricting the number, extent

and nature of credits to be granted in the future. Aside from the action of this Board, a similar process is normal for all bankers and business men in whose hands lies the extension of credits and has been rather rigidly followed. Care should be taken, however, not to abuse this power. Credit should be extended sparingly, if at all, to those whose purpose is either speculation or the making of unnecessary articles of consumption. Those who are producing the necessities of life and those whose products tend toward the improvement and development of society, should be protected in their credits and encouraged in the continuance and expansion of their business. It is practically impossible to lay down fixed rules to cover individual cases. Discretion must be used, but the general principles are clear.

Again the Government should adopt the policy of meeting its own obligations as promptly and satisfactorily as possible. The delays in government payments from mere careless use of red tape have at times caused serious embarrassment to loyal citizens striving to serve their country well. Especially should it incur as few new obligations as may be without neglecting the expenditures usually necessary for the proper protection and care of the people of the country. Here again the remedy may be abused. The Government must in no way neglect to protect its citizens and the general safety and welfare; but it should cut its costs to the limit by clearing the ranks of the employees of unnecessary placeholders, and it should increase the value of the officials whom it retains by the adoption of such methods as shall stimulate them to their utmost efficiency. Both government and private individuals should be thrifty. This does not mean that we should not avail ourselves of improvements leading toward a better civilization; it does mean that we

should stop foolish waste and extravagance. Great savings can be made by more careful study. Often the most nourishing as well as the most enjoyable foods are among the cheapest; often the most serviceable and beautiful clothing is not the most expensive. We should not deprive ourselves of healthful and needed recreation, but many of our enjoyments demand useless extravagance in money and in an expenditure of energy that could be much more wisely employed.

Again the inflation of the currency can be controlled through increasing the normal demand for it by the development of business and production, its diversion into these channels having the same effect on prices as an actual cutting down of the amount in circulation. In practically every line of business there has been until recently a decided falling off in the productivity of the individual workman. The reasons for this are various, but the testimony as to the fact is practically universal. The average output per man per day has in many instances fallen from 10 to 20 per cent, sometimes to an even greater degree. The increased demand on the part of many of the workers for a shorter work day has led to the same result—a lessened production. Doubtless within reasonable limits and with an average of perhaps an eight-hour day or a 44-hour week, a shorter day for labor is desirable, but the number of hours should vary more or less in accordance with the nature of the industry, as well as with the needs of production. The greatest output per workman in the long run means a process that will keep the workman in his best health and intelligence, and keyed up to his best work. His returns will eventually depend upon his product, and to cut the work day below what will enable him to develop himself most efficiently is waste, just as is the extension of his working day until his

XII

COMPETITION AND BIG BUSINESS

JUST as the war created new demands and raised new questions in business life, so the close of the war brought up new problems of business as well as the old problems in a new setting. Of these the most significant concern our domestic production and distribution. Important as may be the discussions concerning foreign trade, the fact is often overlooked that our proper share in international commerce is only a drop in the bucket when compared with the magnitude of our internal trade. It must be remembered that the annual value of domestic products sold in our home market, was, immediately before the war, about $35,000,000,000. This sum is seventeen times greater than our customary export trade, and is twice as large as the total exports of all the other countries of the world. If we would convince ourselves of the transcendent importance of this trade it is enough to recall that the value of articles manufactured in one pre-war year in Greater New York was about equal to the annual value of the export trade of the nation.

What is the outlook for export trade? To answer this question we must ask and answer another. What is to be the attitude of our government towards "Big Business"? Shall we adopt a policy of encouragement based upon practical expediency, or shall we continue the course, too much pursued in recent years, of placing unnecessarily vexatious restrictions upon legitimate enterprise—a policy

which, whatever its professed motive, springs largely from sectional jealousy and a spirit of revenge for past abuses committed by a few great corporations? The modern attitude of American legislators toward Big Business found its chief expression in the Sherman Anti-Trust Act of 1890. For some thirty years this law has been in force, and from the many suits brought under its terms it is easy to understand the abuses at which it was aimed.

With admirable conciseness the National Civic Federation, in an introduction to a volume on "The Trust Problem," * has summarized the evils usually charged against large combinations:

(1) Competition between the States to make laws governing incorporation more and more lax.

(2) Power to exploit both the producer and the consumer, by depriving them of a competitive market, thus making the prices of the raw material unduly low and those of the finished commodity unduly high.

(3) The holding company, which leads to concentration of power, sometimes perilous, in a few hands, and which conceals such an exercise of this power.

(4) Unfair methods of competition, as illustrated by the selling of goods in a given locality, where a competitor is operating, at prices below cost of production until the local competitor is ruined, and by the selling of one variety of goods at less than cost for the purpose of driving from the field a rival who produces chiefly this variety.

(5) Restraint of trade, as illustrated by the refusal to furnish goods at prevalent trade rates to merchants who buy anything from rival producers, or who refuse to maintain list prices, as required by "sellers' agreements";

* "The Trust Problem." Replies of 16,000 representative Americans to a Questionnaire sent out by the Department of Regulation of Industrial Corporations of the National Civic Federation. New York, 1912.

by control of sources of raw material; and by use of patents (which have been bought up) to protect what is not patented.

(6) Overcapitalization.

(7) Inadequate protection of minority stockholders and of subsidiary interests.

(8) Exploitation of investors by manipulaton of stocks and securities.

(9) The checking of improvements in methods of production, if monopoly is successfully assured.

Of these nine counts in the indictment the first five and the ninth concern the competitive aspects of business and, as such, touch not only the owners of the corporations, but the world at large. The other three concern chiefly relations which may exist between the owners and creditors of the concerns involved. Although important, they do not touch the public interest so directly as the counts which in one way or another involve the question of competition.

The main issues, then, center around two broad factors, closely interrelated, and both intimately associated with the public welfare: the prime cost of commodities to the producer, and the final price of commodities to the consumer. Logically, the second factor should be considered first, for low cost to the producer is not necessarily followed by low price to the consumer, a consequence which can be averted by stifling competition and erecting monopolies.

In our reflections on the function and power of competition many of us have to a large extent been dominated by the preconceived idea that any restriction of competition, whatever may be its purpose or the means by which it is effected, is an unmixed evil, and that the more widespread competition is the more fully the public interest is

served. This view is utterly fallacious. Competition is in one vital respect exactly like every other factor in business: its effects vary with the circumstances of each case; they may be judged, not on the basis of unsound theory of economic consequences, but from the results of practical experience.

A bald statement that competition, as competition, is beneficial, has no meaning whatever, for we cannot tell whether it is true or false until we know the conditions, the purpose to be achieved, and the extent to which it is to be carried. One might as well say that eleven o'clock is a good hour. It is a good hour at which to reach the depot if your purpose is to catch the 11.10 train, but a bad hour if you wish to catch the 10.55 train; it is a good hour to have your clock strike eleven, but a bad hour to have it strike two. Eleven o'clock has in itself no goodness or badness, no religious, moral, ethical, or utilitarian quality whatever. Neither has competition.

We must, therefore, have very clearly before us just what we mean by competition, what we expect it to do, and how we expect its end to be accomplished. The general confusion of thought on these matters becomes apparent the moment we set out to find a workable definition of competition. For our purpose the dictionary definitions are useless: "The act of competing"; "strife in common for the same object"; "contention for superiority"; and "rivalry." These phrases carry us no farther than does the word "competition." It is only when we qualify the word by a descriptive adjective that the inquiry into the effect of competition on business can be made practical. Fair competition, unfair competition, restricted competition, unrestricted competition,—these things we can discuss. And it is with regard to compe-

tition so qualified that the attitude of government toward business will find its expression.

The practical issues are clear and distinct when we read what the courts have held to be "unfair" competition, and what experience has shown to be the consequences of "unrestricted" competition. A summary of unfair practices, according to the findings of the Federal Trade Commission, as digested by the American Specialty Manufacturers' Association, in the early part of 1920, gives the following facts:

Of sixty-one condemned practices listed, twenty-eight, or nearly half, are direct interferences with competition, such as giving or agreeing to give to retailers special commissions or rebates, provided they deal in the seller's goods exclusively; giving to retailers at the end of a fixed period certain rebates or discounts based upon the aggregate purchases during that period; effecting long-term contracts with customers; making exclusive contracts to manufacture or sell; selling machines with "tying" contracts; spying on competitors' business, luring employees away, etc. Several of the practices condemned have to do with price, as, for example, price maintenance by contract, agreement or refusal to sell. Four have to do with the control of prices by combinations or pools, and five with price cutting or price manipulation of different kinds.

The next largest group of forbidden practices might be placed under the general head of commercial lying. Such are: false and misleading advertising, misrepresentation regarding one's own business and that of one's competitors, passing off one's goods as those of another, concealing a company's financial interest in other concerns, and falsifying costs. The stealing and simulating of trade marks, trade names, etc., is one of the proscribed prac-

tices. Selling goods unfit for human consumption, in other words, commercial poisoning, is another. Lottery premium coupons are ruled out. The commercial bribery of employees to induce them to purchase, or to purchase in larger quantity than commercially desirable, is denounced.

Several other practices come under the head of monopolizing, such as buying up all the raw material of a certain kind for the purpose of stifling competition, combining to force down the prices of sellers, and organizing trusts and combinations to procure a monopoly. What might be called trade tyranny is the chief object of other condemned practices, such as, attempts by wholesalers to force manufacturers, or by manufacturers to force retailers, to adopt certain sales methods; blacklisting without proper cause by associations of merchants or manufacturers, and attempts by wholesale associations to compel manufacturers not to recognize certain dealers as jobbers. Agreements among competitors to divide up a territory and also to limit their output or sale are forbidden. So much for "unfair" and "unrestricted" competition. These practices must be prevented if the public welfare is to be protected; they can be prevented only through some form of government action.

But before we discuss the form which such government action should take, we should consider another factor in business which has been the subject of much controversy —the size of a business organization. Here again we are confronted with the fact that the goodness or badness of any factor in business can only be determined from observed results of its operation.

Is the operation of business on the vast scale that is characteristic of the modern corporation, good or bad? The question thus put is not susceptible of a direct answer.

We must know whether in a given instance size means no more than unwieldiness and confusion or whether it means efficiency. Neither of these conditions can be assumed offhand to be true of any business merely because it is big. In general large production ought to make for industrial economy, because it should insure low cost of raw material through purchases in great bulk, low cost of overhead charges through their division among a great number of production units, low cost of distribution through advantageous freight rates, and low cost of advertising per production unit. To secure and utilize these advantages, however, depends ultimately upon the skill of the management. If that skill is high, it will secure and utilize them, and the business will be efficient because it is big; but if the management is incompetent the advantages arising from size will not suffice to offset the disadvantages, and business will be inefficient because it is big.

The next point to consider is monopoly, which also is subject to the same general considerations that apply to competition and size as factors in business; these we need not repeat. Some kinds of business must from their very nature be conducted more or less as monopolies; it would be impossible to maintain in them free competition. Most of the so-called "natural" monopolies are the public service utilities—railroads, telegraph, telephone, electric light service, etc. Such businesses can hardly be conducted on a free competitive basis, though, of course, they all are subjected to limited competition. Electric light competes with gas light; the telegram competes with the telephone message; the Baltimore and Ohio Railroad competes over some portion of its lines, mainly at the great terminals, with the Pennsylvania.

But the distinction between these cases and general industry is clear. The amount of capital required to build,

equip and operate a railroad, for instance, is enormous. One hundred miles of railroad requires about $6,000,000, and it would be a very small railroad. But with six million dollars of capital you can start a large concern in any one of a hundred lines of business. The competition in railroad building is, therefore, subject to a natural limitation. If there were only one railroad between New York and Boston, between Boston and Albany, or between Albany and New York, capital might be found to build a second even though freight handling facilities between the terminals could be more cheaply secured by increasing the facilities of the road already in operation. But with two railroads running between two of these points capital could not be raised to build a third. Further, the source from which a railroad draws its income is limited in space and, at any given moment, a railroad is limited in the number of persons to whom it can sell its product—transportation. Government regulation has further limited its opportunity of making a profit, though not of incurring a loss. Only by the enjoyment of partial monopoly can railroads overcome such limitations and exist under private ownership and operation.

What is true of railroads is true, in a greater or less degree, of all the natural monopolies. The conditions of their capitalization are similar; and where government regulation has not yet stepped in to fix rates, the threat of such action is always present.

When we come to general business, we can have scarcely two opinions as to the consequences to be expected from unregulated monopoly. They certainly include high prices for inferior goods or service, and might well include a totally inadequate supply. Unregulated monopoly, however, is not the problem facing

us. What we need to determine is, on the one hand, the extent to which big business can become monopolistic under our present system; and, on the other hand, what measure of regulation by the government is needed to prevent the development of business which is merely big into business which is also bad.

We must not fall under the spell of mere words. "Monopoly," like "trust," as applied to large aggregations of industrial capital has an evil sound. Many of the very revelations from which these words derive their sinister significance for us were made in the course of government investigations and of the government suits instituted for the purpose of stamping out the evils. The evidence in these cases, however, showed much more than the existence of grave abuses. It showed that big business is one of our greatest and most complicated problems, with many aspects that are good as well as those that are bad; that it vitally affects every element in the community, and that upon its proper conduct depends the welfare of the producer, of the wage-earner, and of the consumer. But the evidence showed also that large-scale production using large aggregations of capital, is one of the inevitable phases of industrial evolution and of human progress; that such production, with its concomitant unified distribution is, in short, the genius of modern industry, and is recognized as such by all the great nations of the world.

Too much emphasis cannot be laid on the fact that large-scale operation renders possible many economies in production and distribution, that it aids the utilization of by-products, promotes steadier employment and higher wages for labor, gives protection against industrial accidents, and furthers international trade. It also enables capitalists to find profitable investments in the de-

velopment of industries which would not pay on a small scale; employment for labor which otherwise would be idle is thus provided.

The results of the suits and investigations showed also that the Federal Anti-Trust Law can, when invoked by the Government, prevent monopolistic prices, break up evil monopolies, or stop some of their bad practices.

But we must go further. A law which does no more than forbid a business firm to rob the public and then inflicts a punishment for violation of this rule, is in no sense constructive. Prohibition and punishment alone will not evolve a helpful policy. We cannot regulate business effectively by laying down an elaborate set of rigid rules and then applying them by the tedious and controversial processes of litigation. In matters of commercial practice the law can never foresee and provide in advance for every contingency. If our rules are broad, litigation will find an endless employment in their interpretation, and not even the main points at issue can be covered. We cannot embody in law a general principle that competition shall be unrestricted, for it can easily be shown that unrestricted competition, by crushing out the weak competitors, tends toward injurious monopoly; nor can we adopt a general principle that there shall be a fixed maximum of capital for a single enterprise, for it can as easily be shown that, other things being equal, two firms capitalized at the maximum will be less likely to give cheap and efficient service than one firm capitalized at twice the maximum. The general principle that the rate of interest on business investments shall be limited, as they are now limited in the cases of railroads, is equally out of the question; for again it can easily be shown that American capital will seek invest-

ment in countries where such restrictions are not in force.

Legislation can create a *Federal Business Commission,* whose decisions would be subject to a single appeal to a court of equity having the power to reject them or to give them the force of law. A Commission of this kind would have to decide, upon facts submitted to it, whether in a given instance competition was or was not prejudicial to the public interest; whether a certain business was or was not employing monopolistic methods to the detriment of the consumer; whether a certain selling price was or was not in the nature of profiteering; whether a certain capitalization represented a fair measure of value or an unfair profit to promoters; and so on.

Such a Commission, composed chiefly of business men of wide experience, having authority to call expert witnesses, and operating under rules forbidding the business interests coming before them to be represented by legal counsel, could investigate and determine matters of this kind with despatch and efficiency. The success of the plan would, of course, depend upon the character and talents of the Commissioners, and it is worth considering whether the appointment of members might not advantageously be divided among several authorities—some might be at the disposal of the President, some might represent the United States Chamber of Commerce, some might stand for labor. Whatever the system of appointment, it should be entirely free from any partisan element; and the dignity and authority of the Commission should be such as to make service on it as clearly a proper object of ambition for a business man as a seat on the bench of the United States Supreme Court is to a lawyer.

Some of the functions which have been suggested for

a Federal Business Commission are by law entrusted to the existing Federal Trade Commission.* But the powers of that Commission are inadequate to permit it to fill the rôle of a business arbiter in the sense here described. A new basic law, founded on a broader conception and allowing adequate appointments, is needed to secure for such a Commission the type of men who could give its decisions the dignity and respect in the business world which would make them an effective controlling force.

The creation of such a Commission might well be made the occasion of passing a Federal Incorporation Act as a further means of aiding a wholesome regulation of big business. When Federal incorporation was first suggested it was generally opposed by many of the great business and industrial corporations. But, as in the case of the Federal Reserve Act, further consideration convinced most of the objectors that the disadvantages feared were largely imaginary, while the advantages were certain and obvious. Big business fears nothing more than it fears uncertainty as to the conditions under which it may operate; and of all forms of uncertainty none is more paralyzing than that which is set up by a vague threat of government interference in a manner which is itself vague. Uncertainty breeds other disturbing con-

* NOTE:—The powers of the Federal Trade Commission are as follows:

(1) To effect the readjustment of business and to prescribe appropriate decrees in equity suits.
(2) To require reports and classify corporations.
(3) To investigate.
(4) To prevent unfair competition.

In addition, by the terms of the Clayton Act, the Commission possesses:

(5) Power to prevent price discrimination, exclusive and "tying" arrangements, holding corporations, and interlocking directorates.

ditions, as, for instance, the activities of the muck-raker, whose malevolence finds its greatest opportunity where an indefinite law affords room for violent but indefinite charges of illegal action.

A Federal Incorporation Act, wisely drafted in conference between legislators and business men, would go far toward clearing up this situation. It could lay down definite rules as to capitalization, methods of accounting, officially certified publicity in regard to the conduct and earnings of corporations, and the submission of controversial matters to a Federal Business Commission. Under such a law, corporations could operate with a clear knowledge of the nature and extent of the regulations to which they were subject; and they would be relieved of the serious expense and inconvenience now forced upon them by the great variety of State laws affecting their operations. Not all business, nor even all big business, should be obliged to incorporate under the Federal Law; but certain types of business would obviously fall under such compulsion. In this category should be placed all public and quasi-public corporations of more than merely local interest, all corporations which are the beneficiaries of a protective tariff, and all corporations which in the conduct of their operations are exhausting the natural resources of the country. So far as any other class of business is concerned, federal incorporation should be voluntary; but the law should be so framed as to make it attractive to the great majority of industrial combinations.

The protection of the investing public would obviously be one of the most important benefits of federal incorporation. Conversely, the publicity connected with enterprises conducted under the terms of such an act would

be of undoubted advantage to the corporations themselves, in that they could obtain cheaper capital from the investing public for industrial development, having already inspired confidence among investors.

XIII

THE TARIFF

THE significant part which the tariff has played in our national economic development and in our political history amply justifies careful consideration of the principles involved in this subject. There is every reason to believe that the tariff will continue to be a weighty factor, both in politics and in our domestic and foreign trade. It will continue to be a prolific source of revenue. It will be the means by which we shall hold our bargaining power in the markets of the world. An important purpose will be to prevent the dumping on our home market of goods which are adapted to production in this country, but which, for the present at least, can be produced more cheaply in foreign countries.

It is most unfortunate that legislation dealing with the tariff, the trusts, and other economic subjects vital to the welfare of the nation should be settled by politicians, rather than by business men in business conference. An earnest effort should be made to convince the American people that the tariff is primarily an economic, not a political, issue and that it should not be a matter of party controversy.

Three tariff systems are commonly recognized: *

1. The single tariff.—Under this system only one

* Parts of this chapter have been taken from Vol. XXIV of the Modern Business Course and Service of the Alexander Hamilton Institute.

schedule of duties is imposed, no discriminations being made among countries. This system is rare. Nevertheless, the United States, with a great variety of duties, many of them at very high rates, retained such a system until 1909. Under this system the executive department of the National Government is deprived of the power of bargaining with other countries through the making of special commercial treaties, designed to secure advantages. For this reason most of the great commercial nations have preferred one of the systems mentioned below.

2. The general and conventional system.—Through the application of a "most favored nation" clause, lower rates than those agreed upon in general schedules are given to certain countries. The other countries pay the rates named in the general schedule. This system was applied by Germany from the year 1891 until the outbreak of the World War.

3. The maximum and minimum system.—This consists of two schedules similar to the one just named. The maximum corresponds to the general tariff; the minimum to the conventional tariff. The minimum schedule is composed of a fixed list of rates of duties determined by law, not by the treaty making power. In negotiations with other countries, the executive making a commercial treaty may not go below this minimum schedule, but may apply this schedule to countries entitled to "most favored nation" treatment. This system was adopted by France in 1892 with some modifications, and from 1909 to 1913 by the United States.

There are three kinds of duties:

1. Ad valorem duties.—When duties are levied at a fixed percentage of the value of the goods imported, these duties are known as ad valorem. This system re-

quired collectors of revenue of tested honesty and ability and importers of high integrity. Under this system the temptation to undervaluation is very great and exporters in foreign countries will frequently aid their customers by underbilling their goods. In consequence, the inspectors and appraisers in the importing country must be highly trained men, constantly informed regarding foreign markets and importers. This system also requires a large body of trained detectives to prevent smuggling, a most undesirable and in many cases unsuccessful plan.

2. Specific duties.—The specific duties are generally used in Europe and Asia. They are little used in the United States except in combination with the ad valorem duties. These duties are based on units of measurement, number or weight, as, for example, a certain fixed amount in dollars or cents per yard or gross or pound. The tariff under this system is extremely complicated, but when once framed is simple to enforce by the collectors.

3. Compound duties.—The third system much in use in the United States until the passage of the Underwood Tariff Act in 1913, consists in the main of a specific duty, to which is added a supplementary ad valorem duty. By this method it is sought to combine the advantages of both the ad valorem and specific duties. In many cases the real amount of duty levied is disguised. In some instances discretion is left to the collector to apply either the specific or the ad valorem rate; and he applies whichever will yield the larger amount of revenue. To the collection of the compound duties is added the difficulties of both the ad valorem and specific duties, so that the working of the system is more cumbersome and costly than that of either of the other systems.

A bounty has been defined as a premium paid by a government to encourage some branch of production or industry. The best known example in the United States is the beet sugar bounty established under the McKinley Tariff Act of 1890. Usually, in order that the bounty may be effective, it must be accompanied by an import duty to insure its working in case of large fluctuations in prices. Whereas a protective tariff tends to increase the price both of goods imported and goods produced at home (in the latter case during the development of important industries), the bounty affects only the goods produced at home and must be paid out of the general revenues. The bounties, therefore, do not affect the selling price of the goods and are a direct burden upon the taxpayers.

The protective system seems to have had its origin in Europe in the sixteenth century. It developed from the so-called Mercantilistic theory under which a country was considered to benefit primarily by possessing and keeping within the country a large amount of the precious metals. To secure a supply of gold and silver by trade, efforts were made to stimulate exports of goods and to check imports, thus securing gold and silver in payment of trade balances. Inasmuch as manufactured goods would bring higher prices than raw materials, the system also led to the development of manufacturing industries on a large scale. Furthermore, it enabled a greatly increased population to live in the same territory. In order to promote this general policy, the Mercantilists deemed protective duties desirable, as well as bounties and other artificial means to aid the development of manufacture and trade.

Although economists have generally been inclined to the belief that the importation or exportation of gold and

silver in the settlement of trade balances should be left unhampered to the normal action of business, they have often underestimated the special importance of the standard monetary metals as an element conducive to the best welfare of a country. Both the stability of a country's currency and its credit at home and abroad, are materially affected by the quantity of the precious metals in the country, as well as by the sentiments of the business men themselves. Generally speaking, except in times of war or great national crises, the ordinary course of trade, without either governmental action or special efforts on the part of the business interests, provides a sufficient supply of precious metals. But in times of emergency business men, and especially the great international bankers, find it necessary to take special action to secure or maintain a sufficient supply for business needs. In Great Britain, France and other European countries imports of precious metals are regulated by an arbitrary raising or lowering of the discount rates of the central bank.

In the United States possibly the best illustration of a political use to be made of the protective tariff is found in the recommendations of Alexander Hamilton, the originator of our protective tariff system. While Hamilton did not accept fully the doctrine of the Mercantilists as it applied to money, in his Report on Manufactures presented to Congress in 1791, he noted the difficulty that an industry has in meeting competition from abroad. He definitely recommended the grant of bounties, free admission of raw materials, and general protection to manufacturers within the country through a protective tariff. His main reason, however, for this recommendation was the political policy of strengthening the central government, by bringing to its support the great business interests. In common with Washington he con-

sidered it of supreme importance that the Federal government be firmly established. Very many of the important statesmen of the day were reluctant to yield anything of the sovereignty of the separate states to the central government. Hamilton knew that in order to secure proper respect abroad and to establish the new Federal government on a sound foundation for future growth, it was necessary to win the intelligent business interests.

With the single exception of the slavery question, the tariff, more than any other issue, has tended to divide the country on sectional lines. The reason is clearly economic. Until after the Civil War, the Southern States were almost entirely agricultural, producing principally cotton for export or for shipment to the North. Since there was practically no importation of cotton or of other goods competing with cotton, the South needed no protection. Inasmuch as any tariff would tend to increase prices of the articles which the people of the South consumed without raising the price of the goods which they produced, they were free traders. In the North, on the other hand, manufactures were rapidly developing, including the manufacture of cotton, and these manufactured goods were subject to competition from Europe. The new industries, therefore, had to overcome the problem of building up their business with small capital in the face of vigorous competition. Hence the North desired protection. Ever since mining and cotton and other manufactures have developed in the South, the sentiment of the South has rapidly changed, and at the present time we find many protectionists among southern manufacturers.

The division of opinion regarding the protective tariff is not one between agriculture and manufacture, as is

often assumed. Opinion divides on the question of duties on articles not subject to competition from abroad and on those which are subject to competition. The farmers demand protection where they must meet competition. The Corn Laws in Great Britain were not abolished by the will of the farmers, but against the farmers' wish by the influence of the great manufacturers in Manchester, Birmingham and Leeds. It should be remembered that Cobden and Bright, with all their patriotic eloquence, were cotton manufacturers representing manufacturing districts. In Germany also, the farmers have been protected against the competition of America by protective duties, and the impelling motive for German agitation against the importation of pork from America was economic protection as well as defense against trichinæ.

Political principles are often born of economic advantage. The sincerity of the patriotism of those who advocate measures which tend to their business advantage, is not questioned in the least; but human intelligence is limited. The range of most men's experience and political vision is narrow, and a man naturally sees his own interests more clearly than those of his neighbor. It is but natural for him to assume that what benefits him will benefit the community at large. On the other hand, it is perhaps only those with intimate direct interest in such laws as the tariff who see their far-reaching indirect influence. Not only are the manufacturers directly benefited, but through the diversification of complementary industries large numbers of workingmen and their families, and other classes in the community, such as physicians, lawyers, teachers, preachers, are helped. No system is all right or all wrong; there is a middle course. It will suffice to present a few fundamental

principles generally accepted by impartial authorities who have no interest in partisan controversy.

In any consideration of the tariff it is well to divide the goods produced in any country into three classes:

(a) Goods produced to better advantage in the home country than in any foreign country. Such goods, it is evident, need no tariff for protection, nor would a duty levied upon them yield a revenue of importance. Only when some foreign territory is so situated that it cannot find another market for such goods will they be sent into this country, and such cases are very rare. A tariff levied on such goods is usually purely political maneuvering, offering protection when none is needed.

(b) Goods produced in the home country only under conditions permanently unprofitable. As yet it has not been found practicable to produce commercially tea, coffee, cinchona bark or rubber in this country. A duty levied on such goods, therefore, would have practically no influence toward building up an industry. It would be a duty that would yield a large revenue provided the articles such as those mentioned were practical necessities. Goods of this type make the best basis for a revenue tariff.

(c) Goods adapted to production in this country but also produced as cheaply, or possibly more cheaply for a time at least, in foreign countries. Import duties levied on goods of this type will produce a revenue unless the rate is so high as to prevent importations entirely, and these duties will also furnish protection to the industries established here, inasmuch as they tend strongly to check importations and thereby lessen competition.

All discussions of the tariff center upon this third class of industries. Most of the main arguments on both sides have a certain degree of validity. The policy to

be adopted by any country is not simply for or against protection. It is multiform, the validity of the arguments varying with every schedule, and with almost every article considered. No two different articles are produced under exactly the same competitive conditions. To attain the ideal system, therefore, each article would need separate treatment. As a matter of practical legislation, however, only an approximation to the ideal can at the best be secured, and schedules must be constructed for great groups of articles more or less similarly conditioned.

In the early days of manufacture in this country a favorite phrase was that infant industries should be protected. At the establishment of an industry there are large expenses for obtaining capital, a training of the labor force, securing of a market, building up of goodwill, and other difficulties. Men argued that an industry should receive support by checking foreign competition for a time, and that when the infant grew up the protective hand might be removed. The opponents, of course, called attention to the fact that the protected industries were never ready to surrender the tariff. This is an abuse of the tariff system which a wise Tariff Commission would remember.

How high should such a tariff be? How long should it be continued? In what way should it be removed? Clearly, the same rate does not apply in all industries. If the rate is not high enough to overcome the advantages of the foreign competitor, the principles of protection are not at work. But a tariff high enough to divert capital from investment in old established industries into others new and untried must insure good profits from the beginning. Under these circumstances it is certain that some establishments will be built in the most advan-

tageous places; others will be set up where conditions are less favorable and sometimes they will have less skilled management. Even after the initial troubles have been overcome, there will still be establishments with little or no profit, even though those best situated are reaping high returns. The demand for the lowering of the tariff, therefore, is bound to be vigorously opposed and the argument that its removal will close factories, throw men out of employment and cause suffering, is perfectly reasonable. Doubtless the difficulties of establishing a new industry are such that a country might well pay higher prices for a time in order, later, to secure the benefit of a self-sustaining industry which would need no further help. Cities often gladly pay a bonus to secure a new industry. But, with our system of passing tariff laws, it is often hard to withdraw the aid. Here lies the need for a Tariff Commission.

An important reason for the continuance of a protective tariff is the necessity of maintaining the industries which have secured a footing in this country behind the barrier of the great war, which has, in fact, been the equivalent of a high protective tariff. The first report of the United States Tariff Commission admirably analyzes the effect of the war upon the chemical industries.

"The European War has caused revolutionary changes in the chemical industries. Nearly all branches of chemical manufacture which at the beginning of the war were already well established in the United States, including such staple industries as the manufacture of soda ash, caustic soda ash, and bleaching powder, have greatly expanded. Many articles not made at all before the war, or made only on a small scale, are now being produced in substantial amounts. The manufacture of dyes,

medicinals, and other products obtained from coal tar has had a great development in the United States as well as in England, France and Japan. The most striking advances have been made in the production of explosives and all related commodities, such as sulphuric, nitric, and picric acids, benzol, toluol, and acetone. The potash industry has considerably expanded. Marked advances have been made with projects for the fixation of atmospheric nitrogen; all these will be of great importance from a military point of view as well as for agriculture.

"The industry as a whole, and especially those branches of it which have been most stimulated by the war, will have to face new conditions long after the conclusion of peace. In some branches there will be surplus capacity and the probability of sharp international competition. The military problem will necessarily be considered from new points of view, and military and political considerations, as well as those of a strictly economic sort, will have to be borne in mind in any legislative readjustment."

These and other industries established as a result of war-time conditions have not yet become stabilized and are not ready to meet unrestricted foreign competition. The labor force necessary to man them has not yet been trained, the foreign markets have not yet been secured, capital has not turned to them in sufficient quantity to insure their enlargement to effectiveness. These circumstances are such that the country can well afford to pay higher prices for a time to secure the later advantages of an industry which has been developed to a point at which it needs no further aid. The heavy duties on silk imposed during the Civil War (1864), and increased in 1897, created the silk industry in this country. The industry is now on an efficient basis, and, with growing competition

behind the protective barrier, is destined to still greater efficiency and expansion.

Not only is it essential to retain and build up the important new enterprises started here during the war, but the country must also be on its guard against the dumping of the large stocks which some foreign countries have accumulated in the past years. With these cheap surplus stocks they will attempt to break down certain of our new industries and to regain the markets by unloading these surplus holdings at prices below our expenses of production. This has heretofore been the policy of certain countries while the Tariff Commission's report for the last fiscal year (1919) establishes the fact of the continuance of this practice since the war. Additional legislation is recommended by the Commission to prevent it.

One of the outstanding purposes of a protective tariff is to enable us to bargain advantageously with other nations. They need certain commodities; we need others. For example, we should be willing to lower our tariff rate against the hides of the Argentine in exchange for a lowering of the tariffs of that country against our agricultural machinery, our automobiles, our typewriters, and other commodities wanted there.

So far as our home market is concerned, it must be clear to every one that we shall need more than ever the protection of a high tariff. The European nations will not only be under the greatest pressure to increase their industrial output by every means in their power, in order to escape bankruptcy and to find means to carry out the gigantic task of reconstruction, but they will have to secure this increased production at the lowest possible cost. We shall, therefore, be confronted not only with a vastly increased volume of foreign goods seeking

entry into our incomparable market, but the prices of these goods as offered to us will be the lowest possible. The threat to our industries and the possible indirect effect upon wages through immense importation under a low revenue tariff will be greater than it has ever been. On the other hand, our efforts to secure a market for our surplus products will be hampered by similar considerations; and in the overcoming of these difficulties a high protective tariff will place in our hands the most effective means of bargaining. We should, therefore, have a high autonomous tariff, that is to say, a tariff drawn up to serve in the best way the protection of our own business interests. Other nations will set up tariffs according to their own needs. It will then become a question of one nation making tariff concessions to another, based upon mutual advantage.

The Tariff Commission, after an exhaustive review of the subject of reciprocity, commercial treaties, and bargaining tariffs, emphasizes this use of tariffs as a means of preventing discriminations to the disadvantage of American citizens and their products in foreign markets. It recommends that "the United States should ask no special favors and should grant no special favors," but should use its powers to prevent discriminations against it. Wide discretionary powers should be given to the executive in the fixing and enforcement of penalties under such tariff laws as may be enacted with a view to securing the best advantages for our foreign trade.

The war has emphasized the necessity of the economic independence of nations—the need to feed and clothe their citizens and soldiery and to meet all the emergencies of war. "Self-sufficiency" must be the watchword of the future. The ability of a nation to be self-sustaining depends upon a wide diversification of its manufactures

and the fullest development of its agricultural heritage. Necessary foods must be produced and sold within our own borders. There is need to encourage diversified and intensive cultivation. The time is now come when our available land has been taken up. Apparently, we should look forward to the day when we shall cease to export foodstuffs, and when, furthermore, the possibility of importing food from other countries will grow less. To illustrate: One can readily foresee the day when England may find it difficult to import food. Her population is growing and the pressure upon outside food supplies is becoming greater. In preparation for a like day in this country, we must begin a conserving cultivation and vary our crops in order to supply all our needs independently of other countries. The same is true of our manufactures. Diversity in this respect is readily procurable if we build up by protection those that are faced with the competition of foreign manufactures. Shortly before the war the Government took stock of its industries to see how best to produce munitions. Besides munitions, there are such basic industries as rubber manufactures which should be encouraged and a supply of raw materials obtained. Other industries are equally important.

Who bears the burden of the tariff? Some extremists have asserted that the tariff is a tax which the consumer pays. This is true for goods not produced in this country; the tariff tax is added to the regular price. This assertion is generally untrue to the full extent in other cases. Extremists, on the other side, hold that the tariff is a premium paid by the foreign producer for the privilege of selling in this country. This has been true in many cases where the foreigner had to enter this market, either to dispose of a surplus stock or to avail him-

self of the one possible market. Some years ago, before the Canadian railways were built, the producer of wheat in Manitoba had to market his crop in this country. Therefore, wheat, with the tariff at 25 cents a bushel, sold at 25 cents less on the Manitoba side of the boundary than in Minnesota. Thus the foreigner paid all the duty.

Certain other classes of goods, such as woolens, are manufactured here in part; in part they are imported. Here the foreign producer, in order to force his way into our market against our competition, has usually to lower his price somewhat, although generally not to the full amount of the tariff. The burden is thus borne in part by him, in part by the American consumer. How the burden is divided depends upon the relative demand and supply. If, for any reason, our supply is short so that we must have the goods to meet our needs, the American consumer will pay most if not all of the tax. If, on the other hand, our market is fairly well supplied by the home producer and the foreign producer has a surplus, he must cut his prices in order to get into our markets. He will then be carrying most or all of the duty. The changing conditions of the market shift the burden, but it is fair to say that, speaking generally, the consumer bears a considerable part of it.

Other industries are supposed to have in themselves a cultural or educational value aside from advantage in times of conflict. It is, however, always a question in such cases whether a country gains more by excluding foreign competition and attempting to supply itself, or by removing the obstacles to the influx of foreign ideas and getting thus some of the benefit of foreign training.

Our artists and lovers of art smile disdainfully at a tariff on pictures, and our highest protectionists have not

ventured to limit the importation of ancient or medieval art. But even those who would admit free art and artists, including operatic stars (for they are exempt from the provisions of our contract labor law), would often argue against the free admission of even the most artistic modern furniture or porcelain. And yet the products of highly skilled artisanship may not only stir to emulation but even stimulate invention in those who are brought closely in contact with such work; and it might then develop a class of competent and adaptable workmen whose productivity would be much increased. Diversified industries not only satisfy a wider range of human needs, but by furnishing an opportunity of employment to all kinds of talents doubtless increase productivity far beyond what is possible among people practically all of whom are engaged in like lines of activity.

A protective tariff is really essential for the rapid bringing up of any important suitable industry, since capital must be temporarily diverted from enterprises normally yielding higher profits into some that would be making lower profits or none at all if the duty were not levied. But the industry should be well adapted to the country and should have only to overcome the usual difficulties incident to fresh undertakings; the tariff should be scientifically levied and in due time removed; a new industry will then have been established that raises the total productivity of the country.

The wages which can be paid in any industry are directly dependent on the economic productivity of that industry. If it is run with low profits, wages must be relatively low in cost however high in money rates. If the gains are high, wages may well be raised. In accordance with the principles of a protective tariff, it is clear that so long as a protective tariff is really needed

to prevent the failing of an industry, that industry is not raising the total economic product of the country. This is not to say that the protective tariff may not be justified. The industry may be new and this condition merely temporary. The industry may be needed for the country's defense, or for its education, or other good reasons may be found for its maintenance. But, so long as the tariff is really needed for the industry's maintenance, it does not for the time being increase the country's total economic product.

Again, an increase in the price of one product, such as will be caused temporarily at least by a protective tariff, increases the cost of living of all persons in the community who consume that product. Taking industry as a whole and wage-earners as a whole, it is not possible for the reason just given that a protective tariff on several articles can raise the general level of real wages (that is, the goods purchased with the money wages) so long as the tariff is needed to maintain the production of those articles. It is true that a tariff may enable the economic product of any one industry to be decidedly increased and the money wages or even the real wages in that industry may be increased; but it is evident that the general level of all real wages cannot be thus increased during that short period of necessity. But we must not forget that in the case of any industry where the tariff is wisely levied—unless it be for defense or education—such a condition is only temporary and that, as soon as the industry is established, the price for its output will fall to the level of those abroad or below them. At the same time all the indirect beneficial influences on other industries will be retained because of the increased demands for goods caused by the increased density of population.

The chief causes for high wages in the United States have been: (a) The influence of our free land in earlier times on agricultural development. The independent living derived from agriculture at that time set a standard for wages in other industries. Of even greater influence were our almost unlimited natural resources of iron, coal, timber, and other products which formed the natural basis for our great industrial development.

(b) In certain industries American labor is exceptionally efficient, especially due to the intelligent use of machinery and the standardization of the products. High wages do not necessarily mean high cost of production; frequently they mean the opposite. We can, therefore, compete against foreign labor in many instances in the production and exportation not only of grain and meats but also of agricultural implements, boots and shoes, typewriters, sewing machines, and many other products. The determining factor in the high average of wages paid in the United States is not the tariff, but abundant raw material, cheap land and the productivity of labor. Nevertheless, the tariff is the reason for high wages in a large number of separate industries, and a sudden change in the tariff would certainly throw thousands out of employment and bring about widespread disaster.

The contrast between conditions of labor in Europe and America is well set forth by Mr. Samuel Gompers, who may be quoted as a highly competent authority. "What strikes the American," he says, "is how little the European renting wage-earner gets for his money. Very seldom, indeed, has he a bit of garden; he takes a poor water service for granted; his rooms are fewer and smaller than is ordinarily the case of an American house. The rent payer is usually a rent payer for life. No in-

stitution of the proportion of the American building and loan associations exists in any European country. . . . The European working classes neither hire servants nor buy articles of luxury except in rare cases. The struggle for a barely decent living is ever before them. . . . Mentally contemplating the many cities I visited, and having in mind the conversations I had with workingmen who had lived both in Europe and America, I believe I may assert that whether the cost of living in Europe or America is greater, the workingman depends entirely on the standard of living he adopts while in America. If he voluntarily lives the life of self-denial in this country that he compulsorily lives in the native land, his outlay of money will remain about the same. Even then he will hardly be able to escape gaining something from the superior supply of the good things of life in America. . . . Living is cheap to the wage worker in Europe only because he does without what in America soon becomes a necessity to him—food in good quantity and quality, presentable clothes among his aspiring fellow workmen and their families, and a comfortably furnished home in quarters responding to his awakened desires for equality with the American neighbors, and in general a larger and freer life."

Possibly the greatest advantage of a protective tariff in a country like the United States, as Dean John R. Turner of New York University has so admirably pointed out, lies in the fact that its primary benefit redounds to the most thrifty element of the population. Vigorously as they are denounced by agitators for their faults—and they of course, being human like the rest of us, have many faults—the so-called "enterprising class," or *entrepreneurs,* those who undertake new enterprises and bear the risks of business management, are considered by econ-

omists and the best observers of social conditions to be more thrifty as a class than are the professional or agricultural or laboring classes. It is these enterprising managers of business who play the chief rôle in building up new capital in the country, and justly as we may at times criticize the acts of certain capitalists, it is upon the growth of new capital that real economic progress, including primarily, of course, that of the wage-earners, is founded. Let us note, too, as a general fact with many individual exceptions, that it is the most successful business manager whose establishment pays the highest dividends which are mostly reinvested in productive business, thus building capital, who pays the highest wages and gives his workmen the best working conditions with the most continuous employment.

Now a protective tariff in the first instance favors this class of enterprisers. The other less thrifty classes for a time pay somewhat higher prices for their goods than might otherwise be necessary and a portion of these higher prices are passed back in the form of profits to the managers of the enterprise who, as said, usually reinvest most of it in the plant or in other supplementary establishments. In other words, the tariff thus becomes a primary agency in the creation of new capital.

The tariff thus is an element in the distribution of incomes which causes the expenditures of the less thrifty to take the form of new capital in the hands of the more enterprising element of the population. In the end, this benefit of thrift and industrial enterprise spreads throughout all classes, for increased wages and lower prices and added power to pay for professional services must all come finally from an increased production of goods or a lower cost of production or both; and these improvements

usually, practically always, come under the direction and in the establishments of these industrial leaders.

Bearing in mind the sound principles of economics and government, it seems clear that under present conditions material changes should be promptly made in this tariff: To protect and preserve the new industries which were developed during the Great War and which are necessary if we are to be reasonably self-sufficient in case of future war or national stress of any kind; to prevent the serious derangement of our industries and the probable ruin of many establishments through the dumping of European goods on our markets at abnormally low rates; and to maintain the standards of living and working of our people which would be seriously endangered unless such protective measures are taken. It is evident that these changes in our laws can be most wisely worked out, as recommendations to be submitted to Congress, by a permanent Tariff Commission whose interests will be entirely non-partisan while soundly patriotic.

XIV

FOREIGN TRADE

THERE is a distinct tendency on the part of some well-meaning enthusiasts to believe that the future happiness and prosperity of the nation depend upon the development of its foreign trade. In a measure this is no doubt true; but it is easy to exaggerate the importance of foreign trade. Alluring dreams of future greatness will not bring understanding; that can come only from looking the facts squarely in the face. It is one thing to recognize the importance of foreign trade and quite another to assume that its development should be the exclusive or even the chief aim of national policy.

Our problems are not like those of Europe, Asia, Africa or South America. We cannot follow the example of any other nation. If we would succeed, we must lead. Our economic position is as unique as is our geographic position. The war has given us an unprecedented handicap over every other nation of the world. Our foreign commerce has advanced by leaps and bounds until in many lines we have almost monopolized world trade. This advantage came to us through the temporary weakness of our competitors, not through our own efforts alone, and it is unreasonable to assume that we shall hold all the markets we now control.

Irrespective of the renewed efforts of our competitors, now released from the inexorable demands of war, it is possible for us to command all the foreign markets that

we require and all that we can develop in a healthy way. But to do this we must capitalize our inherent potentialities. No matter what efforts our competitors may make, we can meet them and beat them if we will but protect our incomparable home market, while developing on sound principles those foreign markets which offer natural and permanent outlets for our surplus.

The ideal foreign policy for America would at once give us the highest possible commercial independence and as far as possible make the rest of the world depend on us. As a great producing nation, we should develop foreign trade as part and parcel of a policy of strengthening home markets. And we should do this by stabilizing our financial mechanism, conserving our natural resources and raising our labor to the highest possible level of well-being and efficiency. These are the fundamentals of a permanently successful policy—a policy that will give us an unassailable commercial position.

America is the only country in the world which possesses, and has developed to the point of availability, the greater part of the raw materials essential to her industries. These resources thus developed are the cornerstone of our great industrial structure, the basis of our economic independence, and they must be protected. There must be no internationalism in this phase of our economic policy! According to the Director of the Geological Survey, the United States in 1913 contributed to the world's total more than 64 per cent of its phosphate; 42 per cent of sulphur; 38 per cent of coal; 37 per cent of zinc; 35 per cent of iron; 34 per cent of lead; 30 per cent of silver; 19 per cent of gold and 20 per cent of salt. We have timber in abundance, though it is rapidly diminishing, and an agriculture adequate to make us in a great measure independent. With respect to

nickel, platinum and tin, there is little likelihood that we shall be self-sufficient. We lack potash and certain other minerals essential to our national economy, but many of them can be supplied in part at least by development. And, in some instances, such a policy will, apart from economic considerations, be justified as a matter of self-defense or national preparedness in case of the recurrence of conditions like those existing in the Great War.

In the ten years beginning with 1904, the export value of American goods was $18,592,000,000, against an import value of $13,826,000,000, showing a surplus in our favor of $4,766,000,000, or approximately $500,000,000 per annum. But from this favorable trade balance up to the outbreak of the Great War, between $400,000,000 and $500,000,000 must be deducted yearly on account of the so-called "invisible exports"; the interest and dividends paid by us on $5,000,000,000 of loans and securities held by European investors; money spent by Americans abroad; remittances made by immigrants; and payment by American manufacturers and merchants for freight shipped in foreign bottoms.

Because of these invisible exports it was necessary for us to provide this favorable trade balance in goods to the extent of approximately $500,000,000 a year, or else to sell additional American securities to foreign investors. Payment in gold would have soon depleted our gold reserves. The financial condition of the United States at the outbreak of the war might have become serious had there arisen a strong demand for gold exports. Fortunately, the effect of the war was to create what was tantamount to a protective tariff because of the restriction of exports to this country from the belliger-

ent nations. Thus a great national calamity, financial and industrial, was averted.

"As a result of the war, a fundamental change in our foreign trade situation has occurred. In the period from 1915 to 1919, inclusive, our favorable trade balance had reached the enormous sum of $15,702,000,000. This favorable trade balance was settled by the resale to us of American securities owned abroad, by the sale to private investors in the United States of foreign government and municipal obligations, by loans made by the Government of the United States to foreign governments to the amount of $9,700,000,000 and by net gold shipments to us of $861,000,000. From the position of a nation debtor to the world to the amount of about $5,000,000,000, we became a creditor nation to an amount of approximately $11,000,000,000. The annual interest charge calculated at 5 per cent would be $550,000,000. Of the amount of our world credit, however, $9,700,000,000 is comprised in loans by the Government of the United States to European nations. These debtors have paid no interest and are not for the present likely to be in a position to pay any considerable amount of this interest. It is doubtful, considering the financial position of some of the debtor nations, whether our government will ever receive all of the principal of these loans. Europe is in desperate need for food and raw material and it is difficult for us to formulate a plan by which we can be assured of payment for these supplies; and yet a policy of enlightened self-interest demands that we assist in the rehabilitation of the finances and industries of Europe to insure us a re-payment of money now owed us by European nations, as well as provide a future market for some of our surplus industrial products. It would be a narrow and short-sighted view to regard

with apprehension Europe's future commercial competition with our country to be brought about by our cooperation in her industrial rehabilitation. We must, of course, exercise discretion as to the amount and kind of products we shall receive from Europe as imports towards the reduction of her indebtedness to us—ever mindful of the transcendent importance of the preservation of our own national industries." *

We have already discussed, in considering internal business policy, the overwhelming importance of the domestic market to our domestic producers. To guard that market intact and to promote production and consumption at home must be our first concern. It is clear that we can obtain a dominant position in the world's trade only when our own house is fully in order; hence the need for the present study of our specifically industrial problems. It is not necessary to review here what we have already said about the vital necessity of upholding the American standard of living, establishing mutually helpful relations between capital and labor, and protecting labor from exploitation, by wise industrial and immigration legislation.

When the period of reconstruction in Europe is closed, America cannot depend on European markets to absorb her surplus products. If England permanently adopts and extends the principle of the protective tariff—and she eventually may—as a basis of preferential tariffs with her colonies and dependencies, America will find her most important foreign markets seriously affected. In the fiscal year ending June 30, 1914, nearly 40 per cent of our total exports were to the United Kingdom and Canada, almost equaling the entire importations into

* From a study of our National Balance in 1919—by Vanderlip & Williams.

South America from all nations. If England establishes protection, Germany also will lose much of her best market, for in the year 1913 one-sixth of her entire exports, a large part of which were manufactures, went to England, to say nothing of her very considerable export trade with the British colonies. Since the colonies cannot well supply manufactured goods to replace German products, England's development in these fields will be greatly stimulated.

There is a tendency in this country to overestimate the disabilities suffered by the great commercial nations of the world as a result of their war losses. Let us examine the facts. France unquestionably will require most of her strength and capital for some time to come to rebuild her devastated areas. Japan undoubtedly will attempt to make great strides in South and Central America, and in many lines we cannot hope to compete successfully with her. Germany, driven from her old markets under the British flag, will finally regain—in fact, already is attempting to regain—and enlarge her sphere in Latin America and the Far East. We shall meet her at every turn. Her agents will be found in every market and their activities will bear fruit. While England has paid a tremendous price to carry on the war, it has not all been lost to her, for her industry has been modernized and she is now far better equipped than ever before to compete for world trade.

Our favorable trade balances resulting from the war, although they are already lessening, will undoubtedly continue until European countries are sufficiently rehabilitated to resume normal production and to export the pre-war amount of goods. What is a wise policy to pursue toward European reconstruction? Shall we continue to extend governmental credits to our allies?

Our government has already answered this question in the negative and, except for occasional purely humanitarian assistance in cases of extreme suffering, will make no further loans to Europe. And wisely so, for one of the principal features of reconstruction is the reduction of governmental indebtedness, domestic and foreign, and we should hesitate to increase greatly the government obligations already owing to us on which interest alone amounts to $500,000,000 annually and necessitates an unfavorable balance of trade of equal sum in order to strike a balance and stabilize exchange. Generosity to France, Italy and Belgium, until they get on their feet, is not only desirable on moral grounds, but commends itself as a far-sighted business policy. These countries can pay their debts neither at present nor in the near future. To demand payment of them would be futile. It would promote bad feeling, and at the same time would hamper them in paying their current obligations and building up surpluses toward repayment of their foreign debts.

Europe needs goods, both raw materials and finished products, and she can secure them only by obtaining private credits on a business basis, or by selling part of her productive industries. We permitted foreigners to help develop our Middle West in this fashion. American capitalists will advance money to Europe, or will invest in industrial plants. The government has lent encouragement by enacting the Edge bill, authorizing the incorporation of foreign commerce corporations under the supervision of the Federal Reserve Board. It will be wise for America to insist that funds obtained here be used chiefly for industrial reconstruction, not for the building of merchant marines to compete with our own; not for military purposes, unless defense becomes again

necessary; not for outlays that will help foreign borrowers to compete with us in distant markets by acquiring facilities for landing or distributing goods in foreign countries. Nor should we lend money for the purpose of enabling our commercial rivals to obtain control of sources of important raw materials.

Great Britain has already done a great deal toward her reconstruction. She has increased her exports to the Orient and improved her trade balance. Furthermore, she has gained control of large reserves of oil in Mesopotamia, Persia, and on the Caspian Sea. In contrast, we are in grave danger of lack of oil for our merchant marine. Our entire oil resources at the present rate of consumption will be exhausted in less than twenty years, while our vast reserves of oil in shales are still of problematical commercial value, owing to the expense of extraction. We produce 70 per cent of the world's output of oil and consume nearly 80 per cent. Unless we start a policy of economy and conservation, accompanied, if practicable, by some restriction on exports, we are in danger of depending before long on foreign countries for our oil and of paying a vast annual tribute for our requirements. Of the available known sources of oil supply in the world, outside the United States, about three-fourths have been already preempted by Great Britain, France and the Netherlands, and only a small proportion is still open to American interests. A somewhat similar situation exists as regards the valuable vegetable oils and Americans ought to consider seriously our country's need before selling to our commercial rivals our coconut or other similar oil refineries in the Philippines or Porto Rico or elsewhere. It may not be long before we shall have urgent need for them. A far-sighted policy must

be adopted at once and prosecuted with vigor if we are to maintain our economic independence.

Again, American capital might be invested in Europe and its earnings reinvested for some years to come. This would supply the needed capital without increasing annual trade balances piled up against borrowing countries. Such a plan has heretofore always been followed in the development of new countries. South America is in that state of development now; we ourselves have but recently emerged from it. European capital helped us to open up our resources and, had we not received this help, industrial development here would have been seriously retarded. It seems an appropriate as well as a good policy to reciprocate by purchasing European plants with American capital, employing local labor, supplying local markets, and reinvesting the profits in the same localities. But there are decided limitations to this plan. The obligations at compound interest of 8 per cent (a smaller return would not tempt capitalists) would grow rapidly and would in a comparatively few years reach staggering proportions. Only moderate investments of this kind would be welcomed by Europe and, therefore, only moderate sums could wisely be so used.

It is to the so-called "backward nations" of South America, Africa, Asia, and to Russia that America must look in the long run for her future foreign markets. These countries possess enormous natural resources, as yet largely undeveloped, and consequently of little or no present value. Their people lack purchasing power and, having low standards of living, feel but little need for foreign goods. The development of these countries would involve the expenditure of colossal sums of capital. Where is it to come from? European financial centers can no longer provide it; the United States can.

In developing new fields of industrial activity in those "backward" countries we shall not only create markets for American products, but for the exports of Europe as well. We shall also profit by enhancing the value of the European securities which we now hold. Our allies cannot repay these loans in gold—that would be impossible, even if it were desirable—and our own industries would be seriously affected if we received many of their industrial products as payment. Therefore, they will doubtless repay us in the long run by securities which we help them create.

Before the war, England, Germany and France were the great bankers of the world. Indeed, many of our own most important industries were financed by foreign capital. England's investments abroad were estimated in 1914 at upwards of $20,000,000,000 from which she derived a yearly income of $1,000,000,000. In Latin America alone England had invested $5,000,000,000. Both England and Germany have encouraged the investment of the capital of their nationals abroad in order to control the trade resulting from the industries thus developed. The investment of capital in the development of a country is the "open sesame" to trade with that country.

Americans must not underestimate the significance of foreign competition in backward countries. The absolute necessity of the full utilization of such measures as the Webb-Pomerene Act and the Edge law is shown in the methods employed by Germany and Great Britain before the war—methods which beyond any question will be revived at the earliest practicable moment. The business men of Germany, Italy, Switzerland, Holland, Sweden, Belgium, Japan and other competing countries have been much freer to combine and cooperate than have the citi-

zens of this country. It is true that in England and France there are certain restrictions upon combinations, but even so the regulations have not been nearly so rigid as in the United States.

Prior to the war there were in Germany as many as six hundred important combinations including practically every industry in the Empire. The German dye industry operated as a unit in foreign trade under the leadership of two great groups of allied producers, working under a fifty-year agreement. The manufacture and exportation of electrical equipment was used as a basis for developing German foreign trade through the alliance of the two great electric companies. Half of the coal and coke exported annually was sold by one central selling agency. Practically all of the rapidly developing iron and steel export business was handled by two selling agencies closely allied. In like manner in France and Belgium trade in iron, steel, and glass was unified. Manufacturers in France and Germany worked together to develop the silk ribbon export trade. One might give similar illustrations for other countries of Europe, as well as Japan in the Far East. In the face of such powerful combinations supported in most instances by the active cooperation of their governments, it is clear that if the exporters of the United States are to make headway, they must be much freer to combine than they were before the passage of the Webb-Pomerene Act, and that our Government must work in sympathetic cooperation with them.

In international investments, what the borrowing nation requires is capital; what the lending nation demands is good security. Under present conditions, the so-called "backward nations" find good security most difficult to furnish. Not only may all business arrangements at any

time be disrupted by political disturbances, but wherever a dispute arises between the foreign investor and the local interests, the matter is settled by a biased local court or by executive decree, from either of which decisions, however, the only appeal in practice is to diplomatic intervention. Whichever way the case is finally decided, the course of procedure creates bad feeling on both sides. For this reason it seems advisable to create an International High Court of Equity to hear and determine such cases solely on the basis of justice.

The authority of such a court would be enormous. Its decisions, published throughout the world, would constitute a powerful deterrent to dishonest practices; and its influence would extend wherever international business is carried on. The plaintiff or defendant before such a court would not be called upon to accept the decision of a foreign judge and jury whom he would suspect of bias against him. It is not suggested, of course, that every dispute should be taken to the High Court of Equity; its jurisdiction might be limited to suits in which a specified but large minimum amount is involved.

If we wish to encourage the investment of American capital abroad, our government must change its attitude toward American investors in foreign countries. Heretofore, and especially of late years, no attempt has been made to distinguish between legitimate undertakings by Americans, founded upon the purchase for cash of land, mining rights, and other properties, and schemes—fortunately few in number—which are based entirely upon concessions extorted by threats, misrepresentation or bribes without suitable consideration. The strange view has sometimes been reflected even in the public utterances of men in high position, that it is base and sordid for any American business enterprise to be conducted in a

foreign country. Such a view is a libel upon the American business man, and the opposition to the investment of American capital abroad which springs from it is the fruit of ignorance and prejudice.

Any one who is familiar with conditions in Latin America, Africa, or the West Indies, knows that whatever measure of prosperity and civilization exists among the natives has been mainly brought about by foreign capital in those regions. We may very properly ask a man who invests his capital in a so-called "backward country": "Are the inhabitants of this country better off or worse off because you have gone among them to do business?" And, by the answer to this question, a foreign enterprise should be approved or condemned. In recent years the instances in which native races have not secured great benefits, both moral and material, from foreign enterprises are indeed few.

The foreigner, acting from motives of enlightened self-interest, will do everything he can to maintain law and order and to avert internal warfare. He will build hospitals, bring in physicians and surgeons, improve sanitation, devise means of transportation and communication, and encourage local industry. In the conduct of his business, he will bring capital to the country, give employment to native labor, and elevate the standard of living. Through the taxation of his enterprises, the government of the country will increase its revenues and find it easier to borrow money for its own purposes. The foreign investor invariably pays a higher rate of wages than do native employers, and his business always stimulates the development of the resources of the country.

An excellent and typical instance of this is what occurs when American capitalists build a smelter in Mexico. The smelter depends upon ore mined by native wage labor,

but in the surrounding district there are thousands of acres of metal-bearing ground owned in small patches by the natives. Before the smelter is built this ground is worth nothing to its owners since they have not the capital with which to erect buildings, to import machinery, and to employ mining engineers and metallurgists. But the American smelter will buy at a fair price all the ore brought from these small holdings, thus turning into money resources which have hitherto been valueless to their possessors. Less direct, but no less beneficial, is the stimulus given by the smelter to such local native industries as farming and cattle raising. What is true of the Mexican smelter built by foreign capital is true of the West Indian sugar factory, of the Malayan tin mine, of the African gold mine, of the Burmese rice mill, and of the Sumatra tobacco or rubber plantation. The foreign investor makes his profit, but in doing so he develops and advances the newer country, and increases its prosperity. In addition, he benefits his own country, for he establishes a trade connection which may be of great value in supplying a market for domestic products, in opening up new supplies of raw materials, and in providing freight for the railways and the merchant marine of his own nation.

Within the scope of the present chapter it is possible to dwell upon only a few points involved in the problem of foreign trade. If there is one point more than another upon which we should insist, it is that the whole subject is not to be viewed as an isolated question, but as one that is intimately bound up with our national life. Foreign trade is part of our economic policy, not the whole of it. Regarded in this light, an intelligent foreign trade policy for the future should embrace:

1. A tariff, based upon the recommendations of a Tariff

Commission made up of experts, to protect our home markets from the dumpings of Europe and Asia, and also to secure reciprocal trade advantages with other countries.

2. Legislation, supplementing the Webb-Pomerene and Edge laws, to promote efficiency in our home industries by eliminating the uneconomic and unessential features of the Sherman law.

3. The creation of an immigration board which shall regulate immigration to meet economic demands.

4. The development of a great American merchant marine, privately owned and privately operated, with such governmental assistance as is accorded the nationals of our maritime competitors.

5. The creation of a High Court of Equity which shall adjudicate commercial disputes between Americans and the nationals of countries in which the Americans invest or seek to invest.

XV

PROBLEMS OF FOREIGN EXCHANGE

THE subject of foreign exchange and its relation to the imports and exports of a country is always looked upon as so technical as to be puzzling to persons inexperienced in the field of foreign trade, even in normal times when the countries concerned have the same metallic standard of money.

The conditions brought about by the war are so abnormal that, while fundamental principles obtain, their application has been entirely changed. One need not review in detail the course of developments so far as European trade is concerned. They have been frequently discussed in our financial papers and in special publications. If we take the situation as regards Great Britain and her war-time allies, we have an illustration of the effect of a greatly depreciated currency in a foreign country. During normal times, before the war, when all these countries were on the gold standard, the pound sterling (of which the bullion par is $4.8665) would in the New York market not fall below $4.85 or rise above $4.89. These two figures mark substantially the so-called gold points, that is to say, the prices beyond which gold would be shipped to balance the exchanges of goods. Similar fluctuations or limitations hold for other countries. For many years America's trade balance in merchandise, owing to our surplus of exports over imports, as has already been noted, had amounted to some 500 million

dollars a year, but this was largely offset by various so-called invisible factors, such as interest on securities, and income from other property in the United States owned by foreigners, estimated at some 175 million dollars annually; freight charges for merchandise carried in foreign bottoms—25 millions; remittances by immigrants in the United States—125 millions; expenditure of American tourists abroad—150 millions; insurance premiums and various miscellaneous items—25 millions. The result of this entire situation was a little shipment of gold back and forth between Europe and the United States from year to year, with no great permanent increase in our stock of gold in spite of an apparently favorable balance. A low rate of exchange naturally stimulated imports, since American merchants could buy somewhat more goods in England for a thousand dollars than at a time when the pound sterling was worth some three to five cents more. Likewise, when the exchange was high, it was a good time for us to sell and get a slightly larger amount of cash or credit for our goods than the quoted prices would call for.

On the outbreak of the war, however, there came a change. All the countries hoarded gold as a basis for their currency, so that it could not be exported or imported to settle balances. Again, as the expenses of the war increased, the demand for American goods—especially for war supplies—was most abnormally increased, while the stock of European goods available for export to pay for these purchases was at the same time greatly decreased. As a result of this condition there was a net balance in our favor of over four billion dollars in 1919, of which nearly two billions (1,970 millions) represented the excess of our exports to the United Kingdom over our imports from that country; 769 millions was the excess

in value of our exports to France; and 384 millions the excess to Italy. These tremendous excesses of exports naturally led to a very decided drop in exchange; since relatively few people had debts to pay abroad the debts were mainly the other way; and since there was no gold available, this fall could not be checked by gold shipments.

Another very powerful factor was the inflation and consequent depreciation of the currencies of these European countries; for example, in Great Britain the currency circulation, including Bank of England notes and currency notes issued by the Exchequer, increased from 155 million dollars in 1914 to 2,033 million dollars in 1920. The Bank of England notes were covered fully by gold, while the 1,604 millions of currency notes had a gold reserve of hardly nine per cent. In a similar fashion, though to a greater degree, in France the notes of the Bank of France increased from 1,290 million dollars in 1914 to 7,286 millions in 1920, the gold and silver reserves of the Bank amounting to only about ten per cent. The situation in Italy was even worse, the gold lira in the beginning of 1915 commanding a premium of 6 per cent while in the summer of 1919 it reached even 46 per cent, these figures being even officially recognized. Furthermore, the enormous increases in the public debts, the political situation, and the public sentiment arising therefrom, added still more to the difficulties, as confidence in the solvency and stability of some of the governments concerned seemed to waver.

Since the war broke out the United Kingdom's debt has increased from 3,458 millions to 38,563 millions; France's debt from 6,598 to 39,877 millions, and Italy's debt from 3,788 millions to 15,177 millions, all expressed in dollars converted at par. In view of these stupendous

burdens of indebtedness and the obvious impossibility of their liquidation, except gradually through a slow process of economy and drastic taxation extending over a long period, an element of risk or of distrust inevitably attaches to the currencies whose validity depends in the final analysis on the financial solvency of the governments, for the currencies are supported to a very large extent by securities issued and guaranteed by those governments. Of course, the situation in other countries, such as Russia and those of the Central Powers, has been vastly worse.

Actual quotations reveal that the pound sterling quoted above par in the summer of 1914, fell below in 1915, remaining approximately at $4.75½ until March, 1919, when it began to fall precipitately, reaching its lowest level in February, 1920, at $3.18; since this time a somewhat higher rate has been attained. The maintenance of the rate during the period of the war was not due to natural trade conditions, but rather to the ability of the British government to borrow first from American banks and later from our government funds sufficient to support the exchange through the so-called "pegging" arrangement, by which the British treasury, after securing sufficient credits for our exports, instructed its agent, J. P. Morgan and Company, to purchase all sterling bills offered at a fixed rate of about 4.755 dollars per pound. The British government supported this exchange rate, both to avoid the depressing effect of a falling rate of exchange on the morale of its citizens and to maintain a rate which, including the interest on the borrowed funds, was still more profitable for purchasing supplies than an unsupported rate would have been. When, however, the British government withdrew this support, some four months after the armistice, because it could not continue

borrowing indefinitely from the United States, and because it seemed best to let the exchange find its own normal business level, the drop came, the lowest level being reached in February, 1920, at $3.18.

The history of the franc and of the Italian lira is quite along the same line. The franc was "pegged" at about 9 per cent below par, the lira at some 18 per cent below. When governmental support was withdrawn there were even more exaggerated results, because of the less advantageous positions of the French and Italian governments for carrying out anything like the British financial operations. The franc from a par of 19.3 cents fell slightly below 6 cents, while the lira with the same par value fell even below 4 cents.

The effect of all this has been to reduce very greatly trade with European countries, in spite of the prime importance to all parties concerned of having that trade greatly stimulated. Europe has had relatively little merchandise to give in exchange, although her supply in some lines is increasing. She has very little gold that she can spare for purchase. To seek continually added credits from the United States means increasing the burdens of the future, although in certain cases this might well be far more than offset by the purchase of machinery, raw materials, etc., which would form a basis for the production of goods for export. An easy plan for improving the exchange conditions would seem to be the purchase by American capital outright of many companies in Europe. Machinery and supplies necessary to build up the plants for the manufacture of finished goods for export to the United States would be sent over from this country; but the equipment would not need to be paid for by the exported goods since the establishments would be owned by us and the profits could be reinvested for a time in that

country. When years later the countries have recovered their normal condition, it would be relatively easy for them to buy these plants back.

Various proposals have been made for the improvement of the exchange situation. In so far as they relate to the methods of financing Europe and improving trade balances they have been discussed in the chapter on foreign trade. There are some plans, however, that are more specifically currency devices. Such a plan is the pooling of the international debts and the issuance of an international currency. This plan does not appeal to Americans because it signifies simply the dilution of its own currency by the infusion of a currency based on the debts of foreign governments. It is a disguised way of placing America, with her sounder financial condition, on a level, so far as currency is concerned, with her much more impoverished European allies. Such a plan can hardly secure substantial support in this country.

It may well be that the depreciation of gold in terms of goods and the great increase in the value of silver will give rise to a reopening of the subject of bimetallism. But fundamentally there is only one way by which Great Britain, France, and Italy may expect to see their currencies regain their normal exchange values: increased production and exports, reduced consumption and imports, liquidation of governmental indebtedness through drastic taxation, retirement of vast amounts of paper currencies, and the ultimate removal of all restrictions on the free movement of gold.

Only a few words need to be said about the exchange rates on Germany, Austria and Hungary. Germany has a domestic debt of about 45 billion dollars, and a circulation of government notes, Reichsbank notes, and loan bank notes (Darlehnskassenscheine) of over 14 billion

dollars, with a metallic cover, after the withdrawal of large amounts in payment for food supplies, of less than 2 per cent, and the paper is still increasing. In view of these conditions and the staggering load of the war indemnity, the German mark is worth but little over one cent, as against a par of 23.8 cents.

A proposal has been made in Germany to give its internal debt legal tender quality, which would at once increase the circulation about fivefold. While this plan is apparently not receiving serious consideration, its proposal by a responsible economist and banker, Dr. Bendixen of the Hamburg Mortgage Bank, indicates the desperate condition in which the country finds itself. Austria and Hungary are really in a state of insolvency, and the Austrian krone is practically worthless in the international money market.

In regard to European neutrals, chief among which are Holland, the Scandinavian countries, Spain and Switzerland, the principal item to be noted is that throughout the greater part of the war period their currencies were quoted above par in New York. This apparent depreciation of the dollar was not due to its inherent weakness, but to the fact that dollar exchange was linked to sterling exchange by the "pegging" arrangement and could be secured below par by neutrals, who could purchase sterling at a heavy discount in their own markets, and then exchange it for dollars at the "pegged" rate in New York. As soon as sterling was "unpegged," exchange rates on European neutrals began to fall, and soon they were all quoted below par in New York. Their depreciation, however, is much less than that of francs or lire, since these neutrals themselves have favorable exchanges on France and Italy, but except in the case of the Netherlands and Spain, not on Great Britain.

Canada's exchange position has been somewhat similar to that of the United States. Canada supplied armies, men, munitions and food to the belligerents and consequently had heavy trade balances in her favor; nevertheless Canadian dollars in New York have been at a discount for this reason: while Canada imported large quantities of merchandise from the United States during the war period she was unwilling to reduce her stock of gold by settling her unfavorable balances by gold shipments, her exports to Great Britain were paid for largely by credit, and the gold in Canada would soon be exhausted if she permitted it to be exported. Normally Canada could settle for her obligations in the New York market by turning over her sterling bills, but under present conditions she has no sterling exchange to use for that purpose, and Canadian exchange bills are overabundant and consequently are accepted only at a discount in New York. Canada's domestic financial condition is sound, her currency, though expanded, is protected by adequate reserves, and her national debt is entirely within the limits of her capacity to pay, while the natural resources of the country are very great and capable of rapid development on a large scale. The Canadian dollar, however, has been quoted as low as 85 cents in New York, and though it has rallied, it is likely to remain below par so long as Canada is called upon to trade with Europe on a credit basis, and is thus unable to offset her debit account in the United States by the credit balances of her trade with other countries, mainly with Great Britain.

All of the South American countries prior to the war were dependent to a large extent on European capital for their development. These countries paid for the manufactured articles which they imported from Europe by the export of food and raw materials; in the case of Argen-

tina, mainly by cereals, meat, and lumber; in the case of Brazil, by coffee and rubber; in the case of Chile, by nitrate of soda. All these countries before the war had favorable merchandise trade balances, which, however, were more than offset by interest and dividend payments, freight charges, insurance, and other items due to foreign investors, while the capital amounts due from these Latin American countries to England, France and Germany increased from year to year.

Argentina, whose food exports were greatly in demand from the beginning of the war, suffered but little set-back by the outbreak of hostilities. The peso was at a slight discount in New York until March, 1916, but has since been almost continually at a premium, although the removal of the gold embargo in the United States permitted large shipments of the precious metal to be made to Argentina and the rate of exchange has recently fluctuated within the gold points. The impossibility of obtaining imports from Europe has given a powerful impetus to Argentina's domestic industries. At the present time she must adjust her national economy to a state of affairs in which she can no longer be financed by the Old World, but must stand on her own feet, and must even be in a condition to grant credits to European nations for the export of her food products. Such credits were extended during the war and further credits are under negotiation. Reforms in the system of currency, banking, and taxation are discussed in Argentina with a view to enabling her to organize her business life under the new conditions created by the war.

Brazil suffered more of a shock from the war than Argentina, for her entire national economy was pivoted largely on one product, coffee, which is not an essential and in the demand for which there was a decided reduc-

tion when the war began. The total loss of the German market was a serious blow, and ships were hard to obtain for the North American and Western European trade. In addition to this, Brazil had not progressed so far as Argentina in developing a sound currency and, as a consequence, the milreis has been continuously at a discount in New York. The war has taught Brazil the danger of depending on only one or two products for her exports, and many other agricultural products are now being raised in that country whose natural possibilities are almost unlimited.

In the case of Chile, the balance of trade, national prosperity and exchange rates are all bound up in the exportation of nitrate of soda, which in times of peace is used primarily in agriculture but in times of war becomes most important in connection with the manufacture of munitions. The next most important article of export from Chile is copper. New York quotations of the Chilean peso reflect quite accurately the fluctuations in the export of nitrates. When the war broke out the shortage of cargo space for the transportation of this product resulted in a fall of the exchange, which rallied, however, as the need for nitrates became more acute and ships were allotted to its transportation. After the entry of the United States into the war peso quotations rose rapidly, and in October, 1918, stood at 30 cents per gold peso, as against a pre-war rate of about 19 cents, indicating a premium of about 60 per cent. With the cessation of hostilities there came a decided drop in the demand for nitrates and a corresponding fall in the exchange value of the peso, which, however, remained in New York above its pre-war level.

The situation in the Orient has been vastly different, and for many reasons is even more interesting, particu-

larly in Japan, India and China. The situations in these countries are by no means identical, for Japan is a gold standard country, while China and India are vitally concerned in a direct way with the appreciation of silver—China being on a silver standard. Japan, put on a gold standard as an outcome of her victory over China in 1894 and the wise use of the indemnity which Japanese statesmanship secured from that country, was affected by various questions involving the financing of her tremendously expanded war trade, not by any fundamental dislocation of her currency due to the silver situation itself.

During the Great War, Japan's situation was somewhat like that of the United States, and she was, therefore, in a position to sell enormous quantities of goods at very profitable rates. This trade in part was directly with the belligerent countries, but a vast amount of business was developed with India and China, as well as with other Eastern peoples and colonies. Since the fall of 1915, the Japanese yen has been almost continually at a slight premium. During the war period, according to figures of the Vice-Governor of the Bank of Japan, Japan greatly increased her gold reserves; specie holdings of the Japanese Government and the Bank of Japan were yen 350,000,000 before the outbreak of the European struggle and they have increased in 1920 to about yen 2,000,000,000 or about a billion dollars. This period was also marked by the redemption of government bonds held abroad to the amount of yen 2,300,000,000, domestic loans amounting to 31,000,000, and the repurchase of approximately 36,000,000 worth of national bonds on the market. To this must be added Japanese purchases of foreign government securities to the figure of yen 5,870,000,000.

The economic expansion of Japan for the war years was striking, her imports amounting to yen 5,850,000,000, while her exports totalled yen 7,048,000,000. The balance of trade was in her favor to the extent of yen 1,198,000,000, and this produced Japan's financial problem of to-day. The financing of this trade, with Allied embargoes on the free movement of specie, obliged Japanese statesmen to make heavy investments abroad and use them as security for the inflation of the Japanese currency with notes in order to stop the threatened slowing down of exports when the private exchange banks reached their credit limits. Thus Japan's note circulation increased from about yen 360,000,000 in 1914 to yen 1,086,000,000 at the close of 1918, and in 1920 it stood at yen 7,700,000,000 over the pre-war figures.

Following the uncertainties of the Armistice, which checked Japan's expansion, came the necessity of Japanese industry meeting the renewed competition of European and American exporters in the fields that Japanese business had preempted during the Great War. At the same time, the shipping boom collapsed. These unsettled conditions culminated in the financial stringency, which approached a panic in April, 1920, caused by the aggravated economic position of Japan's "war babies" of industry and trade. This was especially marked in the reaction on such staple products as silk and in the overexpansion of speculative financing projects that strained Japan's present resources at a time of trade depression. In consequence, the balance of trade swung against Japan sharply; the yen was quoted slightly below par in New York; and a process was begun which promised to squeeze out at least part of the war inflation and to put Japan on a post-bellum footing where sound development would go ahead.

The crux of the silver situation is to be found in China and India, not in Japan's war financial operations. One should keep in mind that India has a population of some 300 millions and that China contains an even larger number, estimated at something like 400 millions. In both countries a large part of the population depends upon the soil for its livelihood in villages far from centers of population and but slightly affected as yet by the customs and habits of modern western civilization. The use of gold and silver for ornaments and the prevalence of the custom of hoarding cash have made these countries absorb large quantities of the precious metals. India and China stand out among the countries of the East as what have been aptly termed "silver sinks"; in the course of international trade they draw the bullion into them from the silver-producing nations for the savings of their teeming millions. Both these countries suffered great economic distress as a result of war conditions, which interfered with the customary sources of supply and increased the demand for silver to liquidate accounts. In India the absorption of gold alone amounted to about a billion and a quarter dollars in the forty-six years between 1874 and 1919, the Great War having a decisive effect on the situation. Its outbreak greatly decreased India's imports because the European countries were not in a position to send products urgently needed for their own use. On the other hand, India's exports increased disproportionately because the unlimited demand for her agricultural products was coupled with the over-night development, as it were, of war industries made necessary by the requirements of the Allies and by the rapid advance in prices.

The normal result of this favorable trade balance would have been a great increase in the influx of precious metals

into India, but these metals were not forthcoming, since all European governments were concentrating their gold stocks in their central banks and placing embargoes on the exports of gold and silver. Thus the Indian agriculturist who used to bring his produce to market and exchange it for other goods, found fewer goods to buy and returned home with his cash, mostly silver, but also notes, and concealed it, preparing against a rainy day, since this appeared to him to be the only secure way of keeping his treasure in those troublous times. Coins of gold and of silver were also melted in large quantities to be used for ornaments according to the old-time custom of saving in this form. No legislative enactment can prevent an immense population from living up to its traditions and hence, in the absence of imports of gold or silver for private use and with a free domestic trade in gold and silver bullion, melted coins were used for ornamental and ceremonial purposes. This in brief explains the great demand for silver which arose from India and at one time nearly precipitated a crisis.

The amounts of gold, silver, subsidiary coins and currency notes that were absorbed by the population of India in the manner above described, that is to say, the net amounts by which the volume outstanding in the hands of the public increased, were as follows:

(In millions of dollars; rupees converted at IR=$0.3244.)

	5-year pre-war average	Year ending March 31, 1915	1916	1917	1918	1919
Gold	35.7	24.3	—1.3	4.4	37.8	16.9
Rupees and half rupees	28.5	—21.7	33.7	109.7	90.4	146.0
Subsidiary coins..	2.0	— 0.7	1.2	3.1	3.2	9.0
Currency notes...	11.0	—11.1	25.5	59.0	50.2	167.7
Total	77.2	— 9.2	59.1	176.2	181.6	339.6

(Minus — indicates net reduction in circulation.)

It is this absorption of cash in India, together with the decline in the world's production of silver (which was only between 70 and 80 per cent of the pre-war amount), and the great demand for silver to fill the gaps in India's reserves, that account largely for the great rise in the price of silver and in the exchange quotations of the rupee. To meet their liabilities, importers from India, not able to ship gold or silver, were bidding actively for rupee exchange, and the quotations on the limited amount available, owing to reduced exports to India, show a rapid rise both in London and New York. In London, Indian exchange, controlled through Council drafts, is a complicated mechanism, the description of which requires more space than is here available. In New York, the rupee, worth $0.3244 on the basis of the pre-war legal rate, rose from some 19 cents gold value in July, 1914, to 36.9 cents in May, 1918. During April of that year, the American Government came to the assistance of the British Government, whose shortage of silver in India was threatening to result in uprisings on the part of the population which demanded silver rupees for its products. By authority of the Pittman Act, the United States Treasury melted down and sent to India about 200 million dollars in silver, thereby relieving the situation, at least temporarily. But the demand continued and absorption soon again overtook the coinage. The highest rate for rupees was 50 cents paid in New York last March. In April, 1919, a slight recession to 47 cents took place.*

The net result of the whole situation has been to enable India to pass over to a gold parity, the British Government seizing the opportunity presented by the dislocation of silver values in terms of the gold standard countries to maintain the appreciated value of the rupee and back

* See Federal Reserve Bulletin, October, 1919, p. 945.

it with gold. Between the passage of the Pittman Act and May, 1919, India absorbed $248,480,000 in silver exported from the United States in addition to the heavy drains that had been made on the Chinese stores of the metal; but nevertheless the value of the rupee maintained its high level through 1919 until the British Government completed its fiscal plans for a gold standard with the value of the rupee fixed at two shillings gold.

1893–1917	1 rupee	= 1s. 4d.
April, 1918	1 "	= 1s. 6d.
Aug., 1919	1 "	= 1s. 10d.
Sept., 1919	1 "	= 2s.

By the change effected February 1, 1920, the gold value of the rupee is fixed at 2 shillings (48.6 cents). This makes no longer profitable the melting down of silver coins, which so long as the legal value remained at the old level of 32.4 cents or thereabouts, was one of the great difficulties in the way of restoring the Indian currency situation to normal, while the repugnance of the population to the large gold coins is obviated by the retention of a rupee of enhanced value. In other words, the legal tender value and the bullion value of the rupee were equalized. A fall in the bullion price of silver will make the rupee again a token coin and this will destroy any economic incentive to hoarding.

China, on the other hand, has not, as yet at any rate, utilized the appreciation of silver to establish a gold standard. At the outset we must remember that the Chinese exchange situation, though similar to that of India during the war period, is not regulated by a gold standard country standing behind China as Britain supports the Indian fiscal situation, and in China there is no connection between exchange and paper currency or reserves. In China we are dealing with a country which

has been and remained throughout the Great War a silver standard country. Silver bullion, expressed in terms of taels—a weight of a certain amount of silver of a specified fineness varying somewhat according to the particular locality in China—forms the basis of almost all her trade. The notes of the foreign banks are actually redeemable in silver, while those of some of the native banks which have been compelled to suspend specie payment are really only a small factor in China's internal trade as a whole and, practically speaking, are of no significance in connection with her foreign trade. The question, then, is one of the relation between the United States—nominally a gold standard country, which, however, was not during this period exporting gold at the critical time—and a silver standard country in and out of which silver bullion flowed with considerable freedom in accordance with the demands of business, abnormal as these demands became at certain times.

Immediately preceding the Great War, the course of exchange on the whole was downward, although the average level in 1913 was nearly as high as in 1912. The effect of exchange was to encourage imports, for prices in China were higher than for the four years preceding 1912. The silver importations were heavy. The price of silver remained fairly steady until mid-summer of 1914, because there was a general expectation that both China and India would buy heavily, the former because of the anticipated currency reform loan. The failure of these demands to eventuate caused a drop in July which held through the opening months of the European War; exchange followed the silver price, making it hard to finance exports. The first effect of the war was a drastic reduction in silver importations, starting the excess of bullion exportations which have drained China to a con-

siderable degree. In 1915 the prevailing low exchange held until the end of the summer when there was a 20 per cent rise over the prices existing at the beginning of the year which ended at the close of it. During 1916 the trend of affairs repeated in intensified form those which had prevailed during the previous twelve months, trade being hit by a shortage of ships, high rates, high costs of production abroad, and other war factors. The high gold value of silver especially retarded exports already hampered by war restrictions and the shipping situation. The high value of silver made exchange speculation the ruling passion, soon drawing large quantities of silver to Shanghai, the commercial metropolis of China; while at the same time there were heavy exportations over-seas of the metal from China and money became very tight. America's entrance into the war in 1917, followed a few months later by China herself, aggravated the situation. As in India, the Chinese population had to have silver for the settlement of business; the rising prices expressed in terms of silver reacted most seriously in the continued tightening of the money market due to the buying of the depreciated gold exchange with the enhanced purchasing power of silver, the increased exports of silver to Hongkong, India, and other Oriental points and the closing of American sources of supply. Throughout 1918 the high price of silver continued to demoralize the Chinese trade, although the gross money value of the trade expanded continually in spite of the very real obstacles in the way of commerce. The Pittman Act, too, helped China for the moment until the desperate needs of Great Britain and Indian finance led America in 1914 to raise the price originally fixed on silver thus released. These conditions began to wear away in 1919, the fall of that year seeing the end of the Indian demands for silver, the stabilizing

of transportation conditions, and the dropping of war prices on products. Through 1920 high silver levels slowly receded while trade conditions bettered even more rapidly, thus removing the highly speculative war conditions and restoring Chinese trade to normal.

A summary of the importations and exportations of silver shows how China was denuded of her currency metal during these later years. The figures are in Haikwan taels, the unit of value by which the Maritime Customs measures Chinese trade.

*Year	Importations of Silver in Haikwan Taels	Exportations in Haikwan Taels
1913	55,711,490	19,743,126
1914	16,498,744	30,121,693
1915	20,717,506	29,099,820
1916	37,088,320	65,766,446
1917	36,124,229	12,629,302
1918	27,507,292	48,490,390

Not only was China cut off from her customary volume of silver importations; these statistics show her losses of the metal. Hongkong, a center for liquidations of Chinese trade, generally required from ten to twenty million Haikwan taels a year for the handling of Chinese products; but at the same time about the same amount in the end was always sent back into China for the settlement of accounts there. While during the early part of the war Japan drew on China slightly, in general China has secured more silver from Japanese markets than she has exported. The factor causing the disturbance in the normal flow of silver was India. Taking one-sixth of China's small exports in 1913, India required one-tenth in the following year, one-thirteenth in 1915; then considerably over one-half of the record-breaking shipments of 1916, over a quarter of the small total which China released in

*Returns of Trade of Chinese Maritime Customs.

1917, and three-fifths of the large amount exported in 1918.

Thus the outstanding financial problem for us in the Far East is the silver exchange in China; for the appreciation of silver and British handling of exchange have resulted in putting India on a gold basis, while Japan faces no similar problem because with the aid of her capable financiers she has maintained her gold standard since the close of the nineteenth century. Japan is fully able to protect her fiscal position as she has amply demonstrated during the Great War, whatever the domestic difficulties that her business system must face in the process of deflation. That, however, does not differ materially from the prospects in our own or in other gold standard countries.

That the restoration of normal conditions is going ahead at present (1920) can be seen in the situation that now obtains. From the removal of the gold embargo in June, 1919, to the opening of 1920, the total gold exports from the United States amounted to $331,673,000. Of this total, $92,635,000 were shipped to Japan on top of the large amounts she withdrew from the United States prior to our becoming a belligerent. During this same time, China took $34,686,000, while Hongkong required $36,094,000—a large part of this ultimately being used without doubt in the China trade. India also drew from us $31,954,000 in gold, although the price of silver remained approximately the same. Our silver exports during 1919 reached 239 million dollars, a decrease from the approximately 253 millions of 1918. The larger part was consigned to the Far East, India requiring 109 millions, China 77.6 millions and Hongkong 10.2 millions. Silver shipments to India virtually ceased after September, 1919, and were superseded by gold. The new

condition in India probably means that the decline in the price of silver will not be temporary, for the situation appears to be in hand and the renewal of increasing silver prices is not likely. On the other hand, it would be unwise to assume that further large declines will speedily manifest themselves in the silver situation which now must center on China by reason of the gold standard, demonstrated to have long been a fixture in Japan and apparently fully protected in India. Unless under the influence of the bankers' consortium China also attempts to establish the gold standard in the near future, China's demand for silver will continue, and the consumption of silver will be characteristic of the Orient for some time to come.

It is interesting to note how, under these most abnormal conditions, the fundamental principles of trade and exchange have still worked and what these conditions indicate in the interest of American business. Some months ago a Chinese representative of the Currency Bureau of China came to New York and said that at the request of his chief he wished to investigate two questions:

1. What were the chief causes for the depreciation of gold? (Here spoke, of course, the man from the silver standard country measuring gold in the terms of his monetary standard.)

2. Is it likely that America and the Allied powers of Europe will change their monetary standards, and if so, how?

It is evident from the Chinese point of view that conditions in the so-called gold standard countries are very confused and of doubtful future, while conditions in China seem, relatively speaking, from the monetary standpoint, to be much sounder. And looked at in this way,

why not? The price of silver, the metal in which all internal government obligations are liquidated (though the foreign debts are reckoned in terms of gold) because China's revenue is collected in it, increased in a way we did not think possible prior to the Great War. The consequence is that when the Chinese Government paid its gold obligations abroad—and the Powers in the past took advantage of the low price of silver to stipulate gold payments—one tael did more than double the duty that it did at the outbreak of the war. The same condition applies in the settlement of price obligations of long standing. Just what this means can be seen from the following table:

Year	Average annual price of an ounce of silver
1914	$0.55382
1915	.51892
1916	.68647
1917	.89525
1918	.98446
1919	1.12085
1920	(November)—$1.00

Of course there are two sides to the story when we come to the final effects on trade. The fact that an American dollar will not go nearly so far in purchasing the products of China in 1920 as it did before the war has slowed down her export trade; but the essential raw materials that we require have maintained the volume of commerce in spite of the exchange situation. When it comes to the selling of our goods, so far as gold prices tended to follow the rapid increase in the price of silver, it made China an excellent place to market our products. The chief difficulty is that China has little reserve or credit with which to buy much more than the goods paid for by her diminished exports. Yet in spite

of the lowering price of silver it still remains true that we may more profitably export goods to China now than in normal periods, and in consequence, this would seem a fitting time for American investments in China to be followed up by shipments of machinery and capital equipment of all kinds to help develop to the best advantage the almost unlimited material resources of that country.

IV

REMEDIAL SUGGESTIONS: MISTAKEN; HELPFUL; SOUND

XVI

PROPOSED FORMS OF SOCIAL AND POLITICAL ORGANIZATION

The industrial unrest of to-day has brought to the front a multitude of plans for the improvement of existing conditions, many of them dealing with the form of social organization or with the relations of the economic classes to one another. Some of these plans contain elements of value; others would lead the world back into the chaos of the dark ages. The current press speaks constantly of socialism, anarchism, guild socialism, syndicalism, trade unionism, "one-big-unionism," sovietism, and bolshevism. Out of this conflict of theories has come a better knowledge of social and economic evils; and the latest extreme abuses of the radicals have certainly taught us much to avoid.

In view of the many misconceptions of the real nature of these theories it is worth while to examine briefly the main points of these schemes for rebuilding our social structure.

Perhaps the most comprehensive of the projects for the improvement of society is socialism. While there are varieties of socialists, all agree on fundamentals, but differ as to the immediate program. The largest group at present is the so-called conservative or "right" wing as distinguished from the more radical or "left" wing. Both left and right are united in demanding that the state own and conduct all the agencies of production and distribu-

tion. This means state ownership not only of land and natural resources—farms, mines, water power, etc.,—but also of railroads, telegraphs, telephones, factories, shops, stores, banking, insurance, and practically all economic agencies. With this goes state control, either direct or indirect, of their use. The constitution of the American Socialist Party, adopted in May, 1919, sums up the doctrine by stating that its basic aim is "to eliminate profit, rent and insurance"; that is, to abolish private ownership of enterprises, of land and of capital (the implements for producing goods). The actual administration of this state ownership is to be by means of officials elected by universal suffrage; some form of leasing is occasionally mentioned. This method of conducting industry is generally called the "Cooperative Commonwealth," an organization, however, which differs markedly from the cooperative societies with which most of us are familiar.

The process whereby this change to universal government ownership is to be accomplished is the rock on which the promoters of the doctrine split. The conservative socialist leaders usually insist on orderly political methods and the gradual introduction and extension of ownership by the state. The policy of these so-called Fabian Socialists or "parliamentarians" is opposed by the more radical elements who compose the "left wing" of the party, the revolutionists, and whose lack of patience with the slow educational program had led them to advocate the use of violence, "direct action," in order to end what they deem the evils of capitalism.

At the opposite extreme of socialism is anarchism. By its derivation the term "anarchy" means the absence of government. Theoretical believers in anarchism hold that the powers of government should be restricted to the minimum (practically abolished) and that whatever organi-

zation is necessary to carry on business or maintain social relations should be left to the voluntary action of the people concerned, who will spontaneously group themselves for working out each special problem as it arises. The anarchist's fundamental contention is, therefore, that coercion by the state is unnecessary. Kropotkin, for example, states that while he does not wish to abolish government in the sense of collective decisions, he does wish to abolish the system by which a decision is forced upon those who oppose it. This end, he says, can be secured "not in increasing the powers of the State, but in resorting to free organization and free federation in all those branches which are now considered as attributes of the State." His favorite illustration is the elaborate system of cooperation which has grown up among the continental railways running through several European states. The representatives of these roads, with all sorts of varying methods and interests, have come together and have built up cooperative agreements, even though they have no means of coercing a recalcitrant minority. The advantages of cooperation are so great that such action, he thinks, is certain if the "predatory" motives associated with private property are removed.

In the United States we have had many anarchistic advocates of the philosophic type; their view has appeared in the demand for the abolition of property titles, of vested interests, of domestic relations, and so on, leaving individuals "free" to exercise their "natural" rights and allowing groups of individuals the "free" exercise of whatever powers they can gather by combination or cooperation. Students of our economic history have called attention to the individualistic anarchism of Warren as far back as 1830, followed by Andrews and Tucker; and, later by the communistic tenets of Fournier, Brisbane,

Greeley, and Weitling, who preached also a measure of anarchistic doctrine, since they wished to be free to work out their plans without the interference of any superior state government.

By their idealism these dreamers sought to remove the evils of life through the communal ownership of land and capital, with all that this implies. They thought that men would rise to higher levels of mind and deed if no restraint other than "public opinion" were imposed on them. These were theories of impatient enthusiasts seeking to find a short cut to the ideal of human liberty for which all humane persons instinctively long, and of men inconsistent in that they permit a certain amount of coercion, but cling to the hope that the finer natures of human beings as developed by anarchism will prevent coercion from again reaching its present extent.

The most prominent movement designed to better the condition of the wage-earner is that of the trade union. The trade union includes many adherents of the movements above enumerated. In some countries, as for instance in Australia, organized labor has even taken possession of the government. Trade unionism accepts the existing organization of society and endeavors to improve conditions by the use of methods that are recognized as orderly and legal.

The trade unionists have from time to time in the last hundred years changed the emphasis placed on the various aspects of their policy, and it is, therefore, difficult to find a clear-cut statement of the philosophy of the movement. As already indicated, trade unionism accepts private ownership of property, freedom of contract, and other fundamentals of the American Constitutional rights. It assumes that an industry will pay to labor, management, capital and land a return sufficient to keep that

industry alive. Under modern productive processes, industry is so efficient that it not only provides a return large enough to secure the survival of labor, management, capital and land, but it also produces a surplus. Since freedom of contract prevails, this social surplus is distributed among the four factors in proportion to the bargaining power of each. Obviously an unorganized group of wage-earners is at a disadvantage in bargaining with a compact group representing any one of the other three factors—often working together and sometimes concentrated in one person. To secure a strong position in this bargaining process, the wage-earners often form unions and negotiate through their own representatives; the bargain is then drawn up in the form of a collective agreement or labor contract. The principal features of these contracts are the rates of wages and hours of labor, but they often include general working conditions. Frequently, perhaps as a rule, custom and the desire of both parties to be just enable them to reach an agreement without great difficulty, but in case of serious controversy, the terms of the contract reflect in fact the relative bargaining power of the two parties. In some cases the unions have strength enough to secure to their own advantage the exclusion of non-unionists from the establishments of the employers participating in the agreement.

The past quarter century has seen a great extension of the trade-agreement movement and in some industries—notably the manufacture of clothing and glass—it has reached a stage of development which may be called a state of constitutionalism in industry. While there has been criticism of certain unions because they have broken their agreements, instances of failure to live up to their bargains may also be found on the employers' side. One example of a union keeping an agreement under difficult

circumstances occurred in the anthracite coal strike of 1902; in the face of the strongest possible pressure and at the risk of endangering the anthracite strike, John Mitchell refused to call a sympathetic strike of the bituminous miners (who had a time agreement), solely for the reason that such an act would be a breach of faith.

The principal weapon of the trade union in securing advantages for its members is the strike, though in years past the boycott was also often employed. The employers' counter-weapons are the lockout and the black list. In the course of the last quarter century, a body of court decisions on issues arising from strikes has gradually developed and the law of strikes and lockouts has now become a large chapter in our jurisprudence. A peculiarly American development is the use of the injunction in labor disputes.

American trade unions have in some cases developed sickness and death insurance as well as unemployment benefit systems. In times of industrial depression, when the union's ability to hold its membership is weakest, these features give the union a strong hold on the members. More recently the unions have attempted to build themselves up by promoting cooperative enterprises, both productive and distributive. At earlier periods in American history, similar efforts met with little success. Certain European unions, on the contrary, have been unusually successful in this direction.

From the beginning of the trade union movement, two types of organization have been in use, craft and industrial. The craft union seeks to organize the workmen in one occupation, regardless of the industry in which it occurs, while the industrial union endeavors to form into one group all the employees of an industry regardless of their occupations. Most of the unions affiliated with the

American Federation of Labor are craft unions, though one of their important groups, the miners, is an industrial union. The most conspicuous of American craft unions are those in railway employment, where the engineers, the firemen, the conductors, the brakemen, each have their own organization, though the men work side by side on the same train and in some cases are qualified to fill each other's places.

A trait of American trade unionism which distinguishes it from trade unionism in foreign countries is the tendency to prefer to obtain advantages through collective bargaining rather than through governmental action. American unions have, as a rule, sought to increase wages and reduce hours by means of agreement with employers instead of by legal enactment; they do not, however, object to laws protecting women and children. They endeavor, too, to secure the appointment of union men to state and federal offices which deal with labor problems, and in recent years this effort has been quite successful. Experience in the field of politics has also induced the conservative leaders to take the position that direct participation brings poorer results than the policy of "reward your friends and defeat your enemies," irrespective of party lines. For this reason there is no important "labor party" in this country as there is, for example, in England and Australia, although many efforts have been made by some union leaders to form such a party.

Of late years the trade unions, and especially the American Federation of Labor, have exerted much influence. In Washington and at the capitals of some of our more important States, they maintain paid agents whose business it is to follow pending legislation and to assist in enacting or defeating legislation affecting the interests of wage-earners. Labor union leaders often

appear before legislative committees to further these ends. Such measures are entirely legitimate and are open to any group of citizens who have unified opinions or interests to promote. Perhaps no other group has followed this policy more thoroughly or successfully. Indeed, legislators have often shown themselves weak and unduly submissive to the demands of the unions. The American Federation of Labor has, in round figures, 4,500,000 members, of whom a majority are probably voters. Yet, on important political questions the leaders cannot deliver the votes of the members. Individual thinking and action obtain. There is room for much difference of opinion and in such matters union leaders do not possess disciplinary power.

The present position of the larger trade unions is important. The American male wage-earner has for scores of years had in most of our States the advantage of universal suffrage and, until the present generation, has had the possibility of almost unlimited free land as a resort in case industrial conditions became unfavorable. During the present century there have been many mistakes, many abuses of power, and some crimes to the discredit of the union movement; but this also may be said of the employers' side. The accomplishments of the union movement, however, are distinctly creditable; we find the labor organizations regularly joining with the employer and other citizens in advocating and obtaining free public schools supported by taxation, mechanics' liens, abolition of imprisonment for debt, exemption of wages and tools from seizure for debt, reduction of hours of labor and the increase of wages to provide a standard of living which has placed the American craft worker on a much higher plane than any other worker. In some of these movements the unions have taken the lead.

Another movement of current interest is guild socialism. It is as yet mainly confined to Great Britain, where it originated in 1906 as an offshoot of Fabian socialism. It may be briefly described as a compromise between the socialist and the syndicalist ideas. The constitution of the National Guilds League declares its plan to be "the abolition of the wage system, and the establishment by the workers of self-government in industry through a democratic system of national guilds working in conjunction with a democratic state." The two essentials are a general state organization and side by side with it a group of industrial occupational organizations or guilds, one for each branch of industry. The state is to decide matters affecting the interests of the consumers, or, rather, of the whole body politic; the guilds of each industry, as, for example, the miners, are to decide on matters of production. There would be two sovereign bodies, the state and a joint congress of the guilds, one dispensing state law and one enacting guild law in accordance with the constitution. Guild socialists place great emphasis on the need for a higher standard of workmanship, for restoring the personal relation between the master workman and the journeymen or common workmen and for re-creating the joy of labor which existed under the former guild system. Some of the "guildsmen" even go so far as to advocate the abolition of machine processes and urge a return to hand labor.

Syndicalism is a form of labor organization in which the workers are grouped not by crafts but by industries. Its immediate purpose is to abolish the present private ownership by capitalists or corporations of mines, factories and other means of production and to substitute an ownership by those employed in that industry, usually only the wage-earners. Thus under syndicalism the work-

ers in the copper mines would take over the ownership and control of those mines and manage them for the interest of the wage-earner only. The expounders of the theory would establish a parliament composed of the representatives of the various industries to develop a working agreement covering the distribution and sale of their products. This feature is never clearly described in syndicalist writings. The most conspicuous feature of syndicalism is the advocacy of "direct action" to obtain the desired goal. Direct action, of course, is a euphemism for violence, terrorism, sabotage and other forms of constant turmoil, adopted as a means of developing the revolutionary spirit in the wage-earner. Out of this incessant agitation is to develop the general strike, the grand climax, in which all workers will become "motionless" and produce a total collapse of society as at present organized. From this chaos the workers will take possession of the social organism. In America the most conspicuous syndicalists are the Industrial Workers of the World, whose program of incessant strikes, destruction of machinery, disorganization of industrial processes, violation of contracts with employers and like methods of disorganization is in entire accordance with the evil tenets of the movement.

An offshoot of the syndicalist idea is the so-called "one-big-union" idea. The one-big-unionists propose a general consolidation of all workers, regardless of occupation or of industry, into one organization. This body, by the adoption of syndicalist methods, would seize control of society and establish a dictatorship of the wage-earners. An effort to put the theory of syndicalism into actual practice is the so-called sovietism of the Russian revolution. The word "soviet" means, literally, "council," and a soviet state is one which is organized on the basis of

the representation of the soviets or councils of the various industries. Nikolai Lenin, the head of the present Russian soviet system, is quoted as saying, "Future society will be organized along soviet lines. There will be soviet (occupational) rather than geographical boundaries for nations. Industrial unionism is the basic state." In practice, of course, such a system offers opportunities for the seizure of power by the extreme revolutionary elements and the exercise of a despotism as relentless as any other dictatorship. Thus, the present Bolshevik government of Russia maintains its power by military force, expropriates property and carries out a strict control of the persons of its citizens.

We must not close our eyes to the menace of the Russian Bolshevik movement. It is a tyranny of the most ruthless type. Through the power of arms, it has terrorized the great mass of the Russian people, industrial workmen and peasants alike; it has retained power solely by the use of the military and their sympathizers; it is directed by a very few absolute rulers. Of still greater significance is the fact that Bolshevism is not content to confine its actions to Russia, but is avowedly reaching out to extend its power throughout the world. On the authority of documents published by the Department of State of the United States, written by the leaders of the Russian revolutionary movement themselves, "The program of the Communist Party is a program of not only liberating the proletariat of one country, but it is the program of liberating the proletariat of the world, for such is the program of the 'International Revolution.'"

In Russia the means employed have been military. In other countries the means employed have been to a large extent a widely extended and expensive propaganda, which, subsidized by the Russian Government, aims first

at creating industrial unrest and revolutionary sentiment in foreign countries. It calls attention to the unfortunate industrial conditions following the great war and ascribes them to the present form of industrial organization. It then proposes as a sufficient remedy for these evils the form of industrial and political government theoretically followed in Russia, carefully suppressing the facts regarding the tyrannous methods employed.

The experience of the soviet system in Russia as explained on the authority of the government of the United States, as well as by leading writers in other countries, who, although predisposed in favor of sovietism, have reached on the basis of experience an opposite conclusion, means simply economic ruin. The attempt to put the workmen in control of the factories near Petrograd and Moscow has resulted in practically complete paralysis of industry. Lenin himself has been forced, in order to secure a proper return to a normal production, to engage at high salaries former expert manufacturers and to force the workmen to obey their orders under military conscription.

Wherever sovietism is carried out in accordance with theory, the universal testimony is that it has been an economic failure. We cannot overemphasize this fact. Here in America, as well as abroad, many of our sympathetic-minded citizens (so-called "parlor" socialists and Bolsheviks) have been inclined to accept the doctrines of sovietism as sound. The plain truth is, however, that the doctrines are as fallacious in principle as they have proved ruinous in practice.

The theory of governmental control and management of industry is, as already pointed out, fundamentally wrong. It implies the organization and direction of the individual workman by a few governmental officials. The

individual is deprived of the right to plan and work out his own methods of industry. The individual is dwarfed and his development prevented. Under Bolshevism these evils are greatly accentuated for the reason that the directors of industry, instead of being industrial leaders, are of necessity the proletariat, men who are not technical experts and who also lack experience in the management of industry.

Not only do the soviet tenets lead to economic ruin, but they aim to destroy the bulwarks of morality and of the present social order. The Bolshevik leaders have forbidden the teaching of religion; have disfranchised the clergy; have made marriage a mere civil contract, which may be broken by either party; and have in certain instances declared women common property. Bolshevism, in spite of its formal declarations, in fact destroys representative government which from the time of Magna Charta the world has generally regarded as the essential political factor of the state. The Bolshevik program ignores the fundamental laws of economics. It is the negation of democratic government. It violates the commonly accepted principles of morality and overthrows the generally accepted doctrines of religion.

XVII

EDUCATION

THE problems which beset a nation do not, like mushrooms, grow up over night. Rather, they are of slow growth and their solution is likely to be gradual. They thus pass on from one generation to the next. It is not to ourselves alone but to those who follow us that we must look for the settlement of perplexities which now confront us. The hope of the future lies in building up a generation of men capable of grappling with its issues. This for us means a full understanding of the needs and scope of education and an answer to the following serious questions:

Is the training which we give our children in harmony with the requirements of modern life? Have we ever clearly formulated the actual and practical aim of education? Should the aim of education be chiefly cultural? Should its object be to put the youth of the country in a position from which, between the years of eighteen and twenty, they can advantageously approach the question of a particular occupation in life? Should it at an early stage of youth, after a thorough drilling in reading, writing and arithmetic, concern itself with vocational training? Should it be part of the duty of the teacher to advise a parent as to what fitness his child shows for a particular walk of life? How far should we carry the principle of a uniform curriculum for children of widely different bents and talents? Is not our present system too

largely based upon getting results through formal examinations?

These questions must be examined carefully and the answers must take account of a number of factors which, though they are of vital importance, are seldom discussed.

For instance: We know that at least seventy-five per cent of the children who go to our public schools will join the ranks of skilled or unskilled labor; that of the remaining twenty-five per cent, at least twenty per cent will become clerks, shop assistants, and so forth; and that the remaining five per cent will enter the professional classes. Is our present system of education well adjusted to meet such a condition?

Another point: Broadly speaking, our adult manhood and womanhood can be divided into two classes—a directly productive class and a so-called non-productive class. Is our educational system concerned with turning the minds of children toward the directly productive employments, and with impressing upon them the fact that most of the professions are overcrowded? Some very remarkable figures are available which show for the past few decades the great decrease in the numbers employed in producing, and the increase in the non-productive class.

To what extent is our educational system, with its lack of guidance to youth, responsible for the general aversion to the manual occupations, and for the false pride which favors the clerical occupations? How far do the schools counteract this false ideal and snobbish turn of mind?

The feeling is widespread that the discipline in our public schools has of late years grown slack. Certainly it is no longer so rigorous as it was thirty years ago. This deterioration, as many conceive it to be, is not wholly the fault of our school authorities. Though some of them

cannot be absolved from a certain leaning toward a weak sentimentalism, which desires to banish every harsh or jarring note from the lives of children, there is no doubt that the weakening of restraints has its origin in the homes of the people, where too often indulgence replaces discipline. It is, therefore, not a matter of surprise or objection that the schools should exhibit some departure from rigid and vigorous older standards, though they have not fallen so far away from them as has the family life of our people.

Another general factor operating against the efficiency of our present method of education is that it is permeated by a kind of intellectual Bolshevism—rooted partly in the soil of political expediency, partly in a complete ignorance of general biological laws—which neglects to draw a distinction between equality of opportunity on the one hand and an inequality of talent, industriousness and character, with its necessary concomitant inequality of reward, on the other.

It is in a great measure because of their false interpretation of the privilege of equal opportunity, and their overwhelming emphasis upon the rights of children in contrast with their duties and responsibilities, that we frequently find in the matured man and woman an unreasoning jealousy of all success; in the inefficient it displays itself by what might be described as a permanent state of "grouch" caused by the spectacle of efficiency shown by others. This symptom is one of the most dangerous of the day, for it expresses itself among the great mass of inefficients in an impulse to "level down," since they know that they themselves cannot be "leveled up." In a word, there is the danger that much of our teaching is making against national betterment. Although it gives to millions the rudiments of education, much of its good

work may easily be offset at times because it divorces the curriculum and the facts of life; it neglects character building, and it instils into the youthful mind the insidious poison of a false and perverted doctrine of equality.

Underlying all the faults in our schools, aside from questions of character and morals, is the almost universal refusal to recognize the rigid limitations which the nature of the human material imposes upon the possibilities of education. What, in fact, can a school education do for anybody? Very much less than most of us are prepared to admit. Every child starts with some natural endowment, and the true function of education should be to foster and develop that endowment. Every failure to realize that education must build upon this foundation of native quality can lead to nothing but a measure of disappointment. Allowing for differences in the rate of mental development—an allowance seldom given its due weight—education alone cannot make a stupid child into an intelligent one. By the expenditure of great effort education can teach a stupid child to read and write and can impress upon its memory a considerable number of facts; but education does not impart to a stupid child the ability to make the most intelligent use of its knowledge. We must be careful, however, to discriminate between a slow mind and a stupid one; a child may be slow yet possess excellent judgment, or be quick in perception with little sense of relation.

Even what education does for an intelligent child who has been properly taught is generally misunderstood. The facts which such a child learns at school, or even later at college, are of comparatively little importance in themselves. Such facts are always at the disposal of any one who can read, and a lack of facts can be remedied at any time of life. What education should do for an in-

telligent child is to stimulate his curiosity, teach him how to think, furnish him both with a habit of systematic inquiry, and a knowledge of the means by which he may satisfy it; in a word, put him where he can become a self-educating progressive unit in the community.

If the condition of our schools is bad, what of our universities? Here the case is somewhat more simple, but scarcely more satisfactory. If a boy has been properly trained in the schools, by the time he enters college he should be able to form some idea of the career he wishes to select. That this is not the case as often as it should be is not the fault of the university; but the university is to be blamed for not removing this indecision at an early stage of a young man's career. The real object of a university education is no less confused than that of a school education. Aside from those who enter college with a clear intention of going into one of the professions, and who consequently turn their attention as soon as possible to special studies, the mass of students have but a vague idea of what their university experience is to do for them.

This vagueness is perhaps a reflection of the division of faculty opinion. Members of any university faculty are generally divided into two camps. One regards the university as a cultural institution, and the other as the entrance gate to the practical affairs of life. The dividing line runs between the classical group and the scientific group. The former, though they may not always be teachers or lovers of the humanities, extol devotion to classical studies as the best basis of mental cultivation. The latter upholds scientific studies as a means to exact knowledge, believing accurate observation and logical thought to be fundamental to any career.

The cultural value of a classical education cannot be

ignored. We tend to disregard true culture and exact the materialistic standards by which far too often we measure success. If better standards are to prevail; if the minds of future generations are to be set upon a higher plane and finer ideals of citizenship realized; if intellectual and spiritual development are to be prized beyond material progress; if we are to meet the people of Europe upon an equality of refinement and culture; in short, if we are to turn from the worship of the golden calf to an appreciation of the real and abiding joys of existence, then there is in the curricula of our schools and colleges a definite place for the classics and the humanities.

On the other hand, the educational value of an extended study of the classics is often exaggerated. Without doubt, mastery of Latin or Greek serves to give one a keener understanding of the beauty of the original texts of great literature. A thorough knowledge of Latin, especially, is of great practical value, for without Latin we cannot have complete knowledge of our own language, and the study of European tongues is more difficult. To a less extent the same is true of Greek. But if the thought of the classical writers is the important thing, that can be had from translations. Jowett's "Plato" certainly gives a student as clear an understanding of Plato's philosophy as can be gained from the original, probably a better understanding, for not one student in a hundred thousand can hope to attain Jowett's exquisite understanding of Greek. Few, indeed, ever learn to read either Greek or Latin with sufficient ease to appreciate its literary quality. Furthermore, as a matter of general culture, the relative importance of a study of the classics is somewhat overestimated. We can find in Shakespeare and Milton, in Goethe and Schiller, in Voltaire and Pascal, or in Cervantes and Calderon, an ample reservoir of cul-

ture, fed from the springs of the classics. And those who drink from this reservoir gain an advantage which the well of classical learning does not supply, for through knowledge of living tongues they make contact with their fellow men. To this we must add the consideration, that not in a dead language but in the living tongue all future thought will be expressed, and all future progress recorded. If we argue the matter not as a question of culture, but as a question of the discipline and training of the mind, the classicists have a weak case. No knowledge of Greek or Latin, however complete, nor however laboriously acquired, can train the mind as it can be trained by mathematics, physics, chemistry, or biology. Study of the classics may improve a man's memory and develop his taste and his vocabulary, or, if he has been well taught, increase his reasoning powers. But the study of science must enlarge the powers of observation, promote the orderly process of reasoning, and encourage the love of truth.

Observation of hundreds of technical graduates—American, English, Scotch and German—employed under the supervision of American capitalists and professional and business men, has given a basis for measuring the comparative value of education and native talent, as well as of different systems of education. In the case, for example, of the extractive industries, certain nationalities may be placed in the following order as to their value as engineers: American, Scotch, English, German. The American is undoubtedly the strongest in the native qualities which go to make a good engineer. He is resourceful, quick-witted, ambitious to advance himself through his own efforts, though he lacks a strict sense of proper obedience, and is almost entirely devoid of respect for age and experience. The Scotchman is placed

next because his native qualities resemble more nearly those of the American than those of the other nationalities named. If he is somewhat less resourceful than the American, and somewhat less "quick and uptake"—to quote his own phrase—he can set against this a great steadiness of disposition; and he is certainly not less ambitious. He is usually trustworthy and intelligent to a high degree. He suffers from the lack of opportunity in his own country to study certain branches of engineering.

The English engineer is less easy to label. In the first place, owing to the unequaled measure of freedom which permeates English life, except upon the purely social side, the English have a greater range of individuality, and a greater variation of character and temperament, than have other races. If you take the Englishman at his best, you will find nowhere in the world greater intelligence, quicker understanding, more profound knowledge, finer skill, truer loyalty, or a keener sense of responsibility. At the other end of the scale the negation of all these qualities is painfully evident. Between the two is every shade and variety of makeup. The average Englishman represents almost the exact opposite of the average American. Where the American is quick, the Englishman is slow; where the former has little respect for custom and tradition, the latter has too much; whereas one is dominated by a restless curiosity, the other is held down by a stolid inertia. Although the American has better schooling, the Englishman has some advantage in this respect since the English school child is constantly impressed with the duty of giving something to life while the American child is constantly urged to go and get something out of it.

But the gravest defect of the average English engineer

is the narrow range and the weak impulse of his ambition. These are due not so much to the British educational system as to the general conditions of English life, which have slowly developed through the centuries as an expression of England's social economic and industrial experience.

It is true that careers are open to talent in England, but they are chiefly in the field of politics, where the opportunities offered to the laboring classes are incomparably greater than they are in the United States. But in the field of industry and business comparatively few men ever rise from the ranks, and those who do must possess abilities very much above the average. Without doubt, the experience of the great war will effect a marked improvement in England in these respects. The ambitions of an English employee have usually been confined to getting a raise in salary; they seldom soar to the height of getting out of the salary stage. For a man who remains in England this may be a wise limitation, but when he goes out to countries of wide opportunity, to countries which are making traditions instead of following them, the lack of ambition is a serious handicap. It means standing still in a community which is moving forward, a position which makes neither for self-respect nor for the respect of others. From the employer's point of view it means that Englishmen perform their tasks faithfully from a sense of duty, but without enthusiasm, without initiative, without that zest which is bred of the reasonable hope of better things to come.

The German engineer abroad is the least satisfactory. What he contributes in patient industry and good technical training is offset by native defects which have been fostered and augmented by his system of education. He lacks originality and initiative; he is plodding rather than

resourceful; he is slow to adjust himself to new conditions; his schooling has instilled into him an arrogance of opinion which makes it almost impossible to persuade him that there can be any circumstances in which the German method of doing things is not the best. In engineering and other technical work, this quality is responsible for the fact that although at home the German has achieved under German leadership prodigies of organization and development, yet in the outer world he is usually in the employ of rather than on an equal plane with men of other nationalities whose vision and breadth of mind fit them for the direction of great enterprises.

To return to the question of American education, no discussion of its improvement will be of the slightest benefit unless we first of all go back of the mere technique of teaching and reconsider our ideals and objects. If we regard our school system as in the main directed to making successful American citizens, the first question we must ask ourselves is, What constitutes success? And about this there is a great diversity of opinion. On the one hand there is a minority who unfortunately would measure success by the degree of fame achieved in professional work, in public life, or in any vocation which brings prominently and favorably before the community a man who has rendered good service to his city, to his state, to his country, or to the world at large. Apparently, however, to a large majority of Americans, success means but one thing, the accumulation of wealth. If a satisfactory answer is made to the question, "How much have you got?" no thought is taken of the much more important questions, "How did you get it?" and "What are you doing with it?" If we ask, "What are the essentials for a truly successful career?" the natural

answer would be that seventy-five per cent of them were comprised in the word "character." A man of character is honest, straightforward, conscientious, ambitious, persevering, and levelheaded. Although the schools emphasize character much more now than they did thirty years ago, they are still notably deficient in character building. They do, it is true, instil the virtues of punctuality and diligence to a noteworthy degree; but nothing that they can teach a child, nothing that the university can teach a young man in the way of book learning will avail to make a successful American in the highest sense of the term, unless this knowledge rests upon the solid foundation of a good character.

Apart from the moral elements of character which the schools should do their utmost to build up, there are other elements which also have their importance, and in regard to which children can be readily influenced. Among these may be placed initiative, readiness of decision, an optimistic outlook, patience, good manners. Many people greatly underestimate the value of good manners and mistake civility for servility. Good manners are, in fact, a moral quality, for they are an expression of consideration for others; and so beneficent is their influence that even where they spring from cultivation rather than from natural inclination the mere practice of them tends to foster the social quality of which they are the outward expression.

The war has emphasized the vital need for the Americanization of our foreign population. It was a startling revelation and painful disillusionment when we learned that out of one and one-half million of our conscripted soldiers 380,000, or about twenty-five per cent, could neither read nor write the English language. It was even a greater shock when we learned that a very large

percentage of these illiterates could not speak or understand the English language. Such being the case, it is not surprising that a large part of our population is not imbued with our national ideals and, indeed, has no conception of either the duties or opportunities of American Citizenship. A great many organizations have recently entered actively into the work of Americanization and some excellent results are being accomplished, but the supreme opportunity is in the schools. Great numbers of children of foreign parentage are receiving the benefits of our educational system and every instructor is vested with the responsibility of inculcating American ideals and a thorough understanding of, and consequently a respect for, our institutions in the minds of these embryonic citizens. Unlike the children of some American parents, they do not usually receive such instruction in their homes, and very often even the Sunday Schools and churches which they attend are more apt to instil in them a greater love for the land of their fathers than for that of their adoption.

There must be the most judicious selection of teachers in the public schools, especially where a considerable number of children of alien parents are enrolled. Aside from the possession of the requisite knowledge and principles, it is a fact of the utmost importance that only the teacher who is able to command respect will exert a decided influence. Too often this fact is ignored, more especially in the districts where the greatest proportion of foreigners live. It is within the power of the schools to determine whether the coming generation of those who are now aliens shall be loyal, constructive Americans, or whether they shall be disloyal, destructive anarchists, bolsheviks, and worse.

It is often difficult for the recently oppressed subject

of a despotism in whom hatred for an all-powerful government has been engendered, to comprehend readily that in a democracy all rights and powers originate in and with the people and flow upward to the government and not downward from the government. Will not a correct teaching of this fact constitute one effectual antidote for bolshevism? If a child grows up with the knowledge that our representative form of government is in reality the first practical attempt to place civil and political institutions in accord with religious principles and that the foundation is still intact, will he not be less fertile soil for radical and revolutionary propaganda? That some of our ideals have failed of realization does not condemn them as ideals; it condemns those who have perverted them. The power to remedy all the defects in our present social and industrial order lies within the hands of the voters of the country.

But only a part of a child's time is spent in the school. About one-third of the children of this country are subject to home influences which afford reasonable assurance of their growing up with proper ideals and clean, healthy minds. The other two-thirds, especially children of the poorer classes living in the congested districts, are, by reason of unfavorable conditions of environment, race, or religion, more apt to become criminals, or anarchists, or both. Ninety-nine per cent of the juvenile delinquents are from this class. Here, then, is the opportunity for Americanization of the kind that counts. As Theodore Roosevelt said, "If you are going to do anything permanent for the average man, you have got to begin before he is a man. The chance of success lies in working with the boy, and not with the man." Mainly for this purpose Boys' Clubs, representing a new and admirable department in practical philanthropy, are con-

ducted in many of our cities, under a general organization formed in 1906 and known as the Boys' Club Federation. For like purpose there also exists the great organizations of the Boy Scouts, the Girl Scouts, the Big Brother movement and other similar bodies.

It is estimated that six million boys in the United States between the ages of eight and eighteen are exposed to evil influence during the evening hours. Still in the formative stage, impressionable and unsophisticated, they are liable to be misled and corrupted. To say that they should be at home and not upon the streets at night sounds well enough, but we must deal with things as they are and not as we would have them. The fact is that boys of the under-privileged class are on the streets at night and will continue to be on the streets unless they are attracted elsewhere.

The club or troop aims to provide these boys with opportunities for clean social life and healthful recreation. They pay only nominal dues and no boy is excluded for financial reasons. Every boy is welcomed, be he Protestant or Catholic, Jewish or of no faith. Class distinctions and race prejudices do not exist. There is no effort to moralize or to preach to the boy, and no religious training is attempted. But there is an ever-present moral standard which, though unobtrusive, cannot but have a vital influence in the most impressionable period of life.

Morality in the human being is a slow growth. The perception of right and wrong is acquired mainly through observation, and experience, and comparison. Most offenses committed by boys are what might be termed "play crimes." They get into trouble because of their natural love of excitement and over-abundance of energy. The boy of the tenements has no place to play except the

streets. For just tossing a ball, perhaps, he may be arrested. This, he feels, is a rank injustice, and he easily acquires a hatred of the law, often leading him into serious crime. Wherever a Boys' Club or a Scout Troop is established, there is a marked decrease in juvenile misconduct.

In order to be successful the Boys' Club or Camp must be made attractive; hence no pains are spared in this direction. But the boy must not know that he is being Americanized. He goes to his club night after night because he likes it. He would perhaps never go to a community center with adults or to a meeting place conducted by a religious or social service organization. One Americanizing influence—and by no means the least important—is the shower bath. It is marvelous how children of foreign parents take to the cleanly habits of Americans when the opportunity is furnished. One hundred and fifteen thousand boys are members of the one hundred and sixty-six boys' clubs now embraced in the Federation, and the numbers reached by the Boy Scouts and the Y. M. C. A. are even greater. Gymnasiums, swimming pools, moving picture shows, orchestras and other attractions are offered. Vocational classes are open to any one who cares to join them. They are the boys' own organizations, which they themselves govern, making and enforcing their own rules. The club is made to fit the boy, not the boy to fit the club. The good which these organizations have done and are doing for the health and morals of these boys cannot be estimated.

We pass now to the question of discipline in education. It is generally agreed that in the United States we are behind every other civilized race in the matter of discipline. The youth of America has come to regard obedience as the same thing as subservience, not realiz-

ing that the best obedience is voluntary. No error could be more fatal. As soon as the young man gets out into the world, whatever calling he may pursue, he finds that the readiness to obey cheerfully the orders of those set over him is the golden key which will open for him the door of promotion. When he in his turn rises to the point where he issues the orders, he will find that half his difficulties and half the obstacles set in the way of his own further success are due to the disobedience of those under him.

To the mind of a youth properly trained no pleasure should be greater than the sense of duty well performed, or orders faithfully executed. Any one who has been for years under the orders of others, or who for years has had hundreds of people under his orders can testify that so far as contentment of mind is concerned, he has derived more happiness from service well rendered by him than from service well rendered to him.

In civil life no quality draws men closer together than the sense of voluntary obedience. It establishes the spirit of confidence and trust; it develops a feeling of mutual helpfulness; it simplifies every task which falls to the man who gives an order and the man who takes it.

One has only to reflect upon the history of the past four years to realize what obedience means in military life. Neither the patriotism of the soldier, his courage, his skill, nor his endurance, could offset the disaster which would follow a failure in obedience. What courage could win from the enemy in a year, disobedience would give back to him in a day.

Another defect too common in our schools is their failure to teach respect for age and experience. It must be clear to every one that in our every-day affairs, the importance of youth decreases as we ascend the scale of

employment; and inexperience can never in itself be a recommendation. Yet nothing is more characteristic of many of our school graduates than the contempt they feel for their elders and the readiness with which they discount the value of experience. It is to be hoped that one of the effects of the war will be to modify this attitude. The direction of the war both on its political and on its military side, not only with the Central Powers but with the Allies, was in the hands of men who were past middle life. Few names familiar to the public, either of soldiers, sailors, or statesmen, are those of men under fifty. And when we seek the most famous figures of the war we find in the main men over fifty-five and some over seventy. Foch was sixty-nine; Haig was fifty-nine; Pershing was sixty; Joffre was sixty-eight; Petain sixty-four; Hindenburg seventy-three; Ludendorf fifty-five; Mackensen seventy-one; Lloyd George fifty-seven; Clemenceau seventy-nine. It will be well if the lesson clearly conveyed by these names and figures is not lost on the school-teachers and on the children under their care. The character side of school-teaching has been discussed at some length, because—and it cannot be repeated too often—without character building nothing else that a school can do for a child is of very much value.

Turning from this aspect of the matter to the question of the school curriculum, the lack of skilled mechanics in the country and the oversupply of unskilled labor in normal times bear eloquent testimony to our neglect of practical training. As a large percentage of our children must in the nature of things enter manual occupations it should need no argument to prove that industrial training should form a part of their schooling. Great as has been the improvement in late years, much more re-

mains to be done. Stress, therefore, should be laid on only two points; first, that no child, whatever his future career is to be, can be otherwise than greatly benefited by learning the elements of a mechanical trade; second, that vocational training in the schools will go far to help out our very limited and unsatisfactory system of apprenticeship.

The importance of this question has been greatly magnified by the nature of the difficulties which we have had to face since the war. With all the European countries placed under the greatest pressure to speed up their industries and to extend their foreign trade, so that they may not be utterly swamped by their war debts, the United States finds itself facing a trade competition keener than any which it has yet encountered. If we are to do no better than hold our own, we shall have to exert ourselves to the utmost to develop the best that is in us, and the school is the right place in which to begin this task. In spite of the new emphasis upon science and business, our universities reflect some of the weaknesses of our school system. In them also there is too great a lack of definite aim, too little emphasis on fine ideals, too great a tendency to condemn what is severely practical and to laud what is merely subsidiary or ornamental.

Although improvement has been made of late years, in some branches of university teaching, notably in economics and political science, the instruction is even yet not only often out of touch with the actualities of our economic and political life, but, in the interest of so-called academic freedom, it is too much dominated by the spirit of the crank and the demagogue. Even when the subject of instruction does not lend itself to wild theorizing—as, for example, geology and mining—insuf-

ficient attention is paid to field work. When we consider how these subjects have been studied in Germany, the walking tours in company with professors, the frequent visits to mines, the thousand explanations given of the phenomena observed, we cannot but feel surprised that there should not have grown up in the United States a national system of vocation classes in which student and teacher should more frequently forget their books and study things at first hand in mill and mine, on the hillside, and in the valley.

The repetition may be tiresome but we must run that risk and state again our belief that the most serious criticism to be brought against the university as well as the school is the small part that it plays in laying that firm basis upon which a lasting superstructure of culture or efficiency, or of both, can be built. The facts taught are of secondary importance, for a young man who has learned all the facts, but has failed to learn the lesson of truth in thought and in action, has missed the rarest prize in life.

The problem of life, and the problems of the nation, are too complex to be solved by rote or formula. Our crying need in the future will be, as it is in the present, for men.

INDEX

Academy of Political Science, 150
Accidents, 78, 80
Adams, 57
Adamson Law, 21
Ad valorem duties, 175
Adee, Asst. Secy. State Dept., 61
Advertising, 166; misleading, 164
Africa, 195, 203, 207
Agricultural development, 191
Agriculture, Dept. of, 123
Alexander Hamilton Institute, 24, 174
Allies, 2
American Federation of Labor, 42, 99, 122, 241
American Specialty Manufacturers' Assn., 164
Americanization, 258, 260, 262
Anarchism, 235–38
Andrews, 237
Anglo-Saxon, 19
Annuities, 69
Anti-Semitic, 45
Anti-vaccination, 45
Appointed officials, 63
Appropriations committee, 71
Arbitration, compulsory, 100; voluntary, 100; courts—state, federal, 104, 105
Argentine, 185, 218
Asia, 195, 203
Australia, 22, 100
Austria, 23
Austria-Hungary, 148; U. S. Immigration Statistics, 129
Austrian krone, 216
Autocracy, 9, 15, 16; industrial, 80, 81
Autonomous tariff, 186
Backward nations, 203, 205, 207
Ballot, short, long, 29
Bank of, England, 212; France, 212; Japan, 221
Banking, commissioner, 59; system—American, 149
Banks, credits, 153; currency, 153
Beet sugar bounty, 177
Belgium, 22, 201, 204, 205
Bendixon, Dr., 216
Big Brother Movement, 262
Big Business, 4, 160, 161, 168
Bimetallism, 93, 148, 215
Birmingham, 180
Blacklist, 165, 240
Board of Trade, 103
Bolshevism, 16, 235, 245–47, 250
Boy Scouts, 261–62
Boycotts, 77, 100, 240
Boys' Club Federation, 261
Brazil, 218, 219
Bright, 180
Brisbane, 237
British, Industrial Council (report of), 105; system of permanent undersecretaries, 59, 61; treasury, 213
Budget, Great Britain, France, Germany, Italy, English Colonies, 70; U. S., 70, 71; family, 143
Bureau of Labor Statistics, U. S., 98, 143
Burnett-Dillingham Immigration Bill (1917), 133
Business, depressions, 123; methods and government administration, 62; principles, 70–72

Calderon, 253
California anti-alien land laws, 135
Canada, 199, 217; dollar, 217; exchange bills, 217; railways, 188
Candidates, democratic, 51; republican, 51
Cantons, 45
Capital, 2, 4, 75–82, 97, 130
Capitalists, 82
Capitalization, 167
Carnegie Foundation, 89
Caucus, 50, 51
Central America, 200
Central Powers, 264
Central Reserve City Bank, 150
Cervantes, 253
Chamber of Commerce, U. S., 4, 170
Chancellor of the Exchequer, 70
Charity, public, private, 96
Chile, 219
China, 6, 222, 225–32
City engineer, 59
City manager, 58
Civic efficiency, 34
Civil Service, 67, 70; commissioner, 68, 69; executive dept., 70; law (employees), 65, 66
Civil War, 179, 184
Clayton Act, 171
Clemenceau, 264
Cobden, 180
Collective bargaining, 82, 239
Commerce, foreign, 4
Commercial, bribery, 165; competition, 3; independence, 196; lying, 164; treaty, 175
Commodities, cost of, 162
Commodity prices, 95, 162
Communism, 238
Communist Party, 245
Community of Nations, 10
Competence, legislative, 49
Competition, fair, 163; immigrants and native American wage-earners, 131; restriction of, 162; unfair, 161
Compound duties, 176
Condemned practices, 164
Congress, 3, 32, 36, 47, 55, 59, 68
Congressional directory, 30
Congressional Joint Commission on Reclassification of Salaries, 67
Conservation, 86
Conservative socialist, 236
Constitution of the U. S., 41, 46, 110
Contract labor law, 189
Cooperation between employer and workman, 100
Cooperative commonwealth, 236
Corn laws, Great Britain, 180
Corrupt practices acts, 50
Cost of living, effects on teachers, clerks, skilled workers, etc., 88, 89
Cost of production, 20
Cotton yarns, American, 77
Council drafts, 224
Council of National Defense, 122
Country bank, 150
Courtenay, T. P., 38
Craft union, 240
Criminals, 121
Currency and credits, 92
Currency Bureau, China, 230

Debt, national, 5, 6; war, 212, 213
Delegated Democracy, 41–44
Democracy, 9, 10, 12, 15, 16, 26, 28, 31, 39, 40; American, 41, 54; direct, 41; industrial, 80, 81
Democratic government, 55
Denmark, 22
Department of State, 245
Depreciation, of currencies, 212
Despotism, 16
Direct action, 236, 244
Diseases, enumeration of, 116

Dollar, purchasing power of, 93
Duties, 175
Dyes, 183; industry—German, 205

Earnings, immigrants, 132
Edge law, 201, 204, 209
Education, 7, 11, 36, 248–266; American, English, Scotch, German, 254–57; elementary, 18; system of, 4
Efficiency manager, 26
Elected officials, 63
Election, direct, 44
Ellis Island, 138
Elmira State Reformatory, 121
Employees, participation in management, 110–14; U. S., 21
Employment Service, U. S., 121–23
Engineer, 34, 35
England, 1–3, 5, 77, 100, 103, 184, 187, 199, 200, 204, 211
Entente, 2
Entrepreneurs, 192
Europe, 5, 9, 195; countries of, 178; export trade, 76
European War, 148, 183
Excess profits tax, 146
Exchange, Argentina, 218; Brazil, 219; Canada, 217; Chile, 219; China, 222, 225–32; India, 223–25; Japan, 220, 221, 229; Orient, 219–24; South America, 217, 218
Executives, government, 58
Export trade, 75, 76, 160
Export values, 197
Express companies, 24

Fabian socialism, 236, 243
Federal, Anti-Trust Law, 169; Arbitration Courts, 104; Business Commission, 170–72; Department of Labor—Statistics of Wages and Prices, 90; Incorporation Act, 171, 172; Trade Commission, 164, 171
Federal Reserve, act, 150, 171; banks, 149; Board, 1, 151, 156, 201; gold notes, 151
Federation of Labor, 109
Fisher, Prof. Irving, 93
Foch, 264
Foreign, commerce corporations, 201; exchange, 210–232; markets, 8; trade, 160, 195–209; trade council, 4
Foreign-born population, U. S., 132
Fournier, 237
Franc, 214
France, 1–5, 23, 40, 71, 145, 148, 175, 178, 184, 201–205, 212; U. S. Immigration statistics, 129
Free labor exchanges, 121
Freedom of contract, 238, 239
Freight rates, 22, 166
Function of government, 10

Geological survey, 196
George, Lloyd, 264
Germany, 2, 3, 5, 8, 22, 23, 71, 81, 100, 119, 148, 175, 180, 200, 204; dye industry of, 205; mark, 216; U. S. Immigration statistics, 129
Girl scouts, 261, 262
Goethe, 253
Gold, importation of, 152; shipments of, 198; standard, 210, 230–32; supply, 147; world production of, 149; world's supply, 151
Gompers, Samuel, 109, 191
Government, function of, 19, 26, 28; limitations of, 16; monopoly, 23; ownership, 4, 19–23; regulation, 19, 167; and Big Business. 160–173

Great Britain, 40, 60, 109, 145, 178, 202, 210–13
Great War, 194, 197
Greece, 45
Greeley, 238
Guild socialism, 235, 243
Gulick, Sidney L., 136

Haig, 264
Haikwan taels, 228
Hamburg Mortgage Bank, 216
Hamilton, Alexander, 178, 179
Hamilton, Alexander, Institute, 24, 174
Harmony of interests, 79
Health, 77–80; insurance, 117, 118; insurance—Germany, 119
High cost of living, 143–59
High Court of Equity, 209
High prices, 145
Hindenburg, 264
Holding company, 161
Holland, 216
Hongkong, 227–29
Hood (poet), 94
House of Representatives, 30, 71
Hughes, 21
Hungary, 216

Illiteracy, 132
Immigration, 4, 7, 77, 124, 125; board, 209; Bureau of—division of information, 126; Burnett-Dillingham bill, 133; Commission—U. S., 130, 137; commission, need of, 138, 139; distribution of, 126; illiteracy, 132; laborers, 8; legislation, 199; Oriental, 135, 136; percentage test, 136, 137; restriction of, 126, 133; statistics of, 128–39
"Immigration Problem," 130
Index numbers, 93, 94, 143
India, 223–25, 227
Industrial, autocracy, 80, 81; accidents, 120; benefit societies, 118; conciliation, 99; conditions, 10; democracy, 80, 81; evolution, 168; State, 81; union, 240; unionism, 245
Industrial Workers of the World, 244
Industrialism, 9; American, 84
Infant industries, 182, 183
Inflation of currency, 158
Initiative, 29
Initiative, Referendum and Recall, 41, 44–47
Insurance, old age, 78, 80
Insurance Year Book, 118
Internal trade, 160
International, competition, 184; currency, 215; debts—pooling of, 215; High Court of Equity, 206
International Harvester Corporation, 107
Internationalism, 1–3
Interstate Commerce Commission, 23
Investments, 204; American, 206; international, 205
"Invisible Exports," 197
Invisible investments, 211
Italy, 2, 22, 40, 148, 201, 204, 212; U. S. Immigration statistics, 129

Jackson, 57
Japan, 92, 184, 200, 204, 205, 220, 221, 228; immigration, 135, 136; U. S. Immigration statistics, 129
Japanese yen, 220, 221
Joffre, 264
Joint industrial councils, 108
Jowett's "Plato," 253
Judiciary, 45
Justice, 25, 45, 80, 82; administration of, 18; social, 10, 11

Kemmerer, Prof. E. W., 150, 153
Krone, 216
Kropotkin, 237

Labor, 2–5, 75–82, 97–114, 130; and capital—international aspects, 75, 76; cooperation in management, 110–14; leaders, 82; party, 241; party—England, Australia, 241; skilled, 7; union, 81
Laborers, immigrant, 8
Large-scale production, 168
Latin-America, 31, 204, 207
Latin Union, 148
Lauck, W. Jett, 130
Law, 17
Leadership, political, 7, 29
Leeds, 180
Legal reserve, 149; requirement of banks, 152
Legislation, 28, 42, 54; American, 30; financial, 4; municipal, state, national, 17; railway, 1, 4
Legislative competence, 49
Lenin, Nikolai, 245–46
Liberia, 31
Lincoln, 57
Lira, 214
Literacy test, 133, 134
Living wage, 95
Lloyd George, 264
Lockouts, 77, 80, 97, 100, 240; statistics of, 98, 99
London, 223
Lottery premium coupons, 165
Ludendorf, 264

McKinley Tariff Act, 177
Macaulay, Lord, 38
Mackensen, 264
Manchester, 180
Manitoba, 188
Manufactures, American, 76; report on—1791, 178
Maritime customs, China, 228
Markets, British, 8
Material welfare, 26
Mediation, 100
Mercantilistic theory, 177
Mercantilists, 178
Merchant marine, 4, 7, 209
Mesopotamia, 202
Mexico, 207
Milton, 253
Minimum wage, 95; legislation (Mass.), 96
Minister of Finance, 71
Minnesota, 188
Monetary, income, 145; supply—U. S., 152; unit, 92
Money, purchasing power of, 92; supply of, 147
Monopoly, 165–68
Morgan, J. P., & Co., 213
"Most Favored Nation" Clause, 175
Munition workers, 145
Mutual accident and sick benefit societies, 118

National Civic Federation, 99, 161
National, defense, 18, 27; guilds league, 243; league of Republican Clubs, 33; preparedness, 197; problems, 10
Natural, monopolies, 166, 167; resources, 7
Navy Department, 123
Netherlands, 202; U. S. Immigration statistics, 129
New South Wales, 22
New Zealand, 100
Newlands Act (1913), 102
Nominating conventions, 43

Ohio, 121
Oil, world's output of, 202
"One-big-unionism," 235, 244

Organizations, war work, 122, 123
Orient, 202, 219–24
Overcapitalization, 162
Overproduction, 8, 75

Parcel Post, 24
Parlor socialist, 246
Partial monopoly, 167
Party, 43; machines, 43, 44; political, 21; politics, 28, 55
Pascal, 253
"Pegging" exchange, 213–16
Pennsylvania, 166
Pension fund, 69
Pershing, 264
Persia, 202
Peso, 218, 219
Petain, 264
Philippine Islands, 92, 202
Philosophic anarchism, 237
Physical examinations, 119
Pittman Act, 224–27
Plato, 253
Political organization, 235–47
Political State, 81
Politics and government, 28
Porto Rico, 202
Post Office Department, 23, 24, 123
Pound sterling, 213
Preparation for war, 1–7
President, 60, 65
Preventive medicine, 116, 117
Prices, 87, 88, 92, 95; of commodities, 147; control of, 164
Primary, 29, 44, 48–52; direct, 51; New York State, 51
Private ownership, 20, 238, 239
Profit sharing, 107, 108
Profiteers, 155, 156
Protective tariff, 177, 197
Public, affairs, 28; health, 116; opinion, 77; service, 41; utilities, 20; works, 124, 125

Race prejudice, 2
Radicalism, 126
Railroads, 19–25, 59, 84, 166, 167; boards of labor adjustments, 102; brotherhoods, 109; labor board, 102
Real wages, 75
Rebates, 164
Recall, 29, 46
Reconstruction, 199–201
Referendum, 29, 46
Reichsbank notes, 215
Representation, methods of, 16
Representative democracy, 41, 42
Representative government, 43
Reserve City Bank, 150
Restricted competition, 162
Revolutionary agitation, 126
Roosevelt, Theodore, 57, 61, 260
Rupee, 223–25
Russia, 4, 40, 203; U. S. Immigration statistics, 129
Russian Revolution, 244

Sabotage, 244
Salaries, Congressional Joint Commission on Reclassification of, 67
Scandinavia, 148, 216; U. S. Immigration statistics, 129
Schiller, 253
Seasonal demand for labor, 121
Securities, American, 197, 198
Securities, European, 204
"Sellers' Agreements," 161
Senate, 30, 60
Senators, 44; popular election of, 47
Shakespeare, 253
Sherman Anti-Trust Act (1890), 161; law, 209
Shipping Board, 7
Shop committees, 108
Short ballot, 63
Sick benefit associations, 118

Sickness, 78, 80; insurance, 117, 118
Silk, 221
Silver, price of, 231
"Silver sinks," 222
Single tariff, 174
Social organization, 235–47
Social problems, 17
Social progress, 97
Socialism, 235–37
Socialist Party, American, 236
South America, 4, 6, 195, 200, 203
Sovietism, 235, 244–47
Spain, 216
Specific duties, 176
"Spoils system," 64, 65
Standard of living, 7–10, 75–96, 115, 129, 133, 192, 199, 207
Standards, pre-war, 8
State, arbitration courts, 104; government, 62, 63; insurance department, 59; legislature, 36, 47, 55; ownership, 236
Statistical Abstract of U. S., 118
Stock ownership, 107
Strikes, 77, 80, 97–100, 240; statistics of, 98, 99
Sunday schools, 259
Supreme Court, U. S., 170
Surplus production, 8, 9
Survival of the Fittest, 20, 29
Sweden, 204
Switzerland, 40, 45, 46, 148, 204, 216; U. S. Immigration statistics, 129
Syndicalism, 235, 243, 244

Taels, 228
Taft, William H., 61
Tariff, 4, 174–94; Commission, 182–86, 194, 209; general and conventional system, 175; maximum and minimum system, 175
Taxation, 2
Taxes, 146; collection of, 18
Telegraph, 19, 20, 23, 166
Telephone, 19, 20, 23, 166
Tenure of office, 66, 67
Thrift, 86, 117, 157
Trade, balance, 178, 197, 198, 210, 211, 215; domestic, 4; foreign, 8; international, 6; restraint of, 161; rivalry, 2, 5; unionism, 235, 238, 240, 242; unions, 107
Trade-marks, 164
Trade names, 164
Transportation Act (1920), 102
Treasury certificates, 154
Treasury Department, 69, 153
"Trust Problem," 161
Tucker, 237
Turner, John R., 192
Two-party System, 48, 49
"Tying" contracts, 164

Undersecretaries, 59, 61
Underwood Tariff Act (1913), 176
Unemployment, 3, 80, 115–27
"Unfair competition," 163–65
Unionism, 77
United Kingdom, 23, 212; U. S. Immigration statistics, 129
United States Steel Corporation, 107
Unregulated monopoly, 167
Unrest, Political, 2; Industrial, 3
"Unrestricted competition," 163, 165

Vocational Training, 8
Voltaire, 253
Voluntary bargaining, 96
Voluntary health insurance, 118

Wage earners, 8
Wages, 77; living, 95; minimum, 95; nominal and real, 91; real, 75; various classes, 87–91
War debts, 201
War Department, 123

War supplies, 146
Warren, 237
Washington, 57, 178
Ways and Means Committee, 71
Wealth, distribution of, 8
Webb-Pomerene Act, 204, 205, 209
Weeks, Senator John W., 3
Welfare, 17
Welty, Benjamin F., Congressman, 136
Wertling, 238
West Indies, 207, 208
"Whiteley plan," 108
Wilson, Woodrow, 21, 133
World problems, 10
World production of gold, 149
World War, 3; effects of, 85
World's gold supply, 151

Yen, 220, 221
Y. M. C. A., 262

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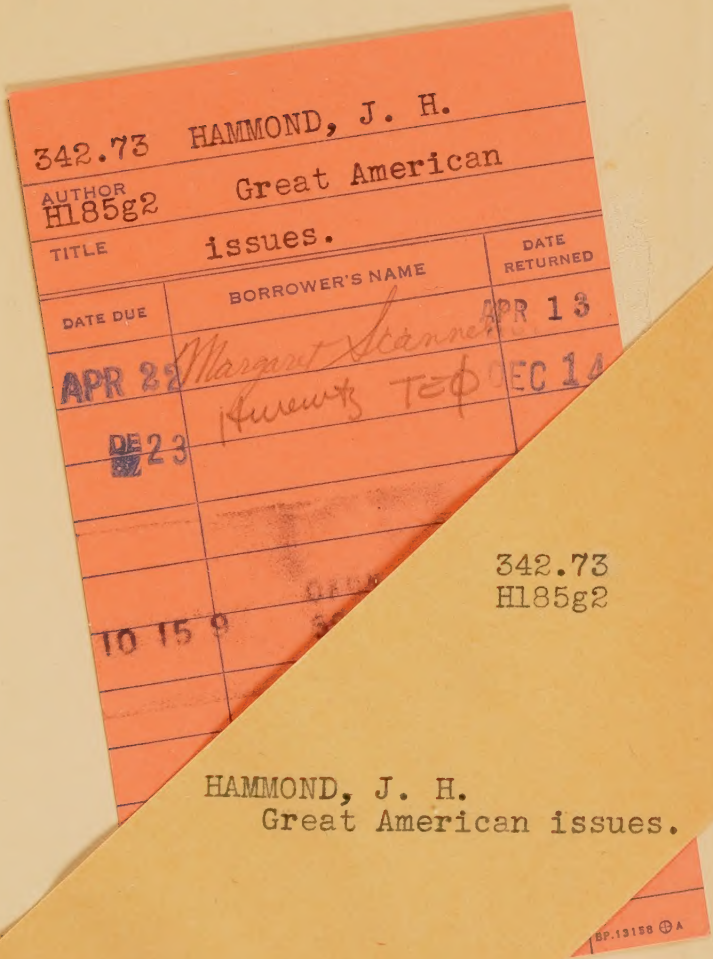
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